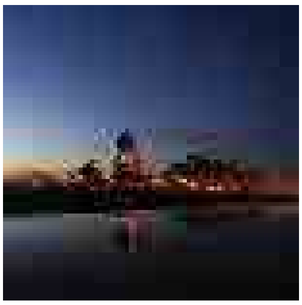
MITTAL

Mittal Steel South Africa Limited

Annual Report 2006



# Partnership, plant and product

# Vision

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

# Mission

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

*This report should be read in conjunction with the 2006 sustainability report.*

# Partnership

Partnerships are central to our business philosophy, positioning us to deliver value to a wide range of stakeholders, from customers to suppliers, shareholders, employees and communities. Our partnership with the Arcelor Mittal Group, the world's most global steel producer, gives us access to leading edge steel research, development and technologies – ensuring our continued global competitiveness and participation in the world steel markets.

# Plant

Buoyed by the completion of our extensive re-engineering and rightsizing programme the benefits of which are flowing through to the bottom line – we are committed to driving and implementing continuous cost efficiency and productivity improvements at all our plants to keep the company amongst the world's lowest cost producers. Mittal Steel South Africa continues to focus on growth opportunities to deliver sustainable profitability through an expansion programme to increase capacity, ensuring we are able to meet future local and global demand for quality steel products.

# Product

Built on a foundation of years of experience, Mittal Steel South Africa's uncompromising focus on continuous improvement has positioned us at the forefront of product development and innovation in the steel industry. With its wide range of products, Mittal Steel South Africa serves an extensive range of industrial sectors critical to economic growth in both domestic and international markets. We plan to expand our leading position in the local market through development of new products and the growth of the downstream industry, while focusing our attention on selective international export markets, particularly Africa.

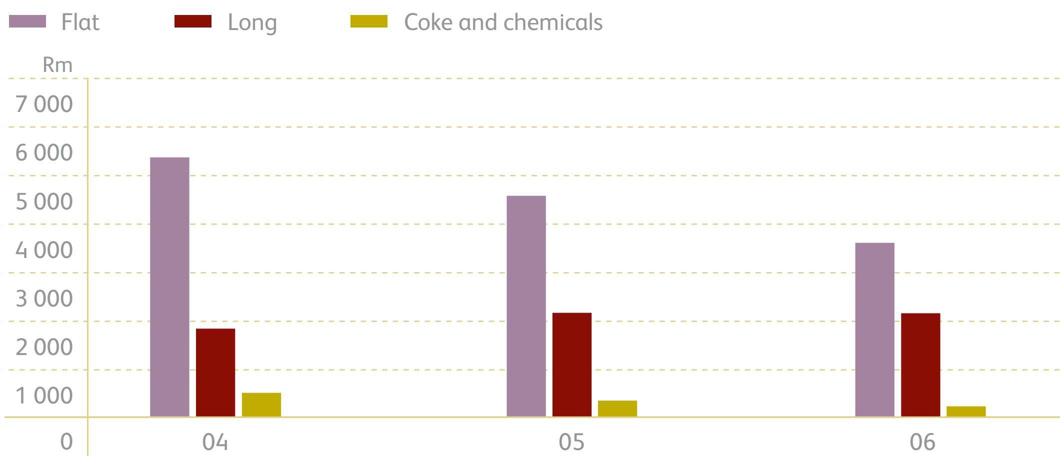
# Partnership, plant and product



# Group profile

| | Products | Sales ('000 tonnes) | Net operating profit Rm | Employees |
|---|---|---|---|---|
| **Flat Steel Products** | | | 3 550 | 5 085 |
| Vanderbijlpark | | | | |
| (Gauteng) | Slabs | 50 | | |
| • 2 blast furnaces | Plates | 292 | | |
| • 3 electric arc furnaces | Hot-rolled coil | 1 371 | | |
| • 3 basic oxygen furnaces | Cold rolled coil | 452 | | |
| | Galvanised | 454 | | |
| | Electro-galvanised | 108 | | |
| | Tinplate | 330 | | |
| | Colour coated | 103 | | |
| Saldanha | | | | |
| (Western Cape) | | | | |
| • Corex, Midrex continuous process | Hot rolled coil | 1 108 | | |
| **Long Steel Products** | | | 2 100 | 2 890 |
| Newcastle | | | | |
| (KwaZulu-Natal) | Profiles | 1 519 | | |
| Vereeniging (Gauteng) | | | | |
| • 1 blast furnace | Billets, ingots and profiles | 177 | | |
| • 3 basic oxygen furnaces | Forged | 44 | | |
| • 1 electric arc furnace | Seamless tube | 102 | | |
| | Windows and posts | 84 | | |

## Operating profit per business unit



# Values

**Reliable**
We do what we say. We stand by our promises. In the steel industry, a secure, reliable line of supply is critical to the success of our business and that of our customers. As a reliable and secure employer, we support our employees and their communities.

**Strong**
We don't give up. We are determined to achieve our goals and will pursue them single-mindedly regardless of the prevailing wind of opinion.

**Expert**
Whether in technology, manufacturing, human resources, acquisitions or community activity, we pride ourselves on being the best in our respective fields. Continual learning is key to retaining expertise.

**Confident**
Great achievements require confidence. We believe in ourselves and what we are doing. We have strength of character and self-belief that gives us the edge.

**Authority**
We are the voice of steel. The world turns to us to learn about new processes and innovations and to get the facts about our industry. Our authority comes from an objective standpoint built on years of experience.

**Influential**
Already influential in the steel industry, we aim to broaden our sphere of influence in associated industries, local communities and new markets. Our employees are given the power to influence their careers and our business.

**Innovative**
Everybody says they are innovative; we truly are. We not only pioneered the use of DRI in the manufacturing process, we reinvented the steel industry. We encourage experimentation and reward new ideas. Now innovation is a way of life for all of us at Mittal Steel South Africa.

**Open**
While we always protect our business, we are clear in what we say and encourage transparency in our business dealings given our responsibilities to our stakeholders.

# Strategic goals

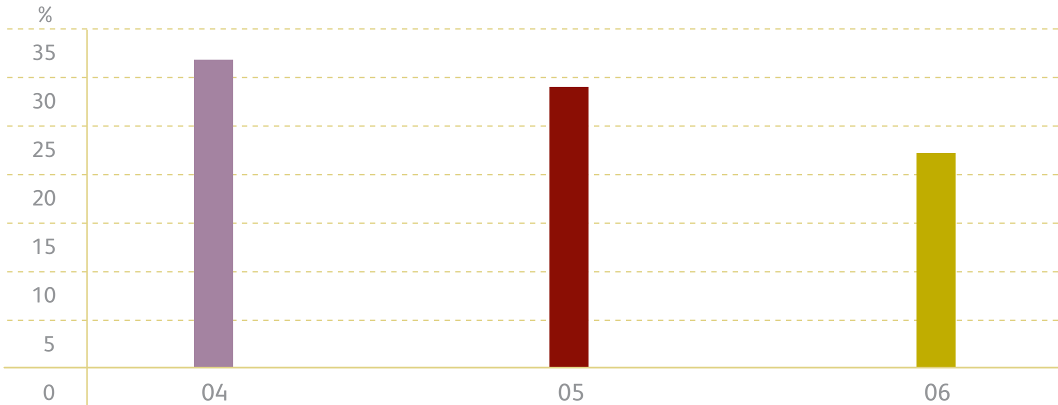
We have set clear goals for ourselves as we enter the next phase of our journey towards transformation. We believe that we are well equipped to realise key objectives and to meet whatever challenges the future may bring. We use both objective and subjective criteria to measure our ability to create value.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

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

# Business objectives

| | Return on equity | Competitiveness | Cash generation | Shareholder value release |
|---|---|---|---|---|
| **OBJECTIVE** | At least cost of capital (currently 15%) | Remain in lowest quartile of global cost curve | Positive cash flow before major new investments throughout commodity cycle | Share price to reflect at least underlying net equity value |
| **ACHIEVEMENT** | 21,9% for the year | Most recent cost curves confirm lowest quartile ranking | Cash flow positive | Average share price of R74,43 was higher than the average net equity value of R47,54 |
| **FUTURE INITIATIVE** | To exceed EVA by improving earnings through:<br>• cost reductions;<br>• value added products; and<br>• higher throughput. | To maintain lowest quartile ranking at all plants despite Rand strength through cost leadership | To maintain positive free cash flow through focusing on cost, working capital reduction and improvement of margins | To maximise shareholders' value through capital productivity and margins, coupled with stability in earnings, over the cycle, which will translate into added wealth for our shareholders |

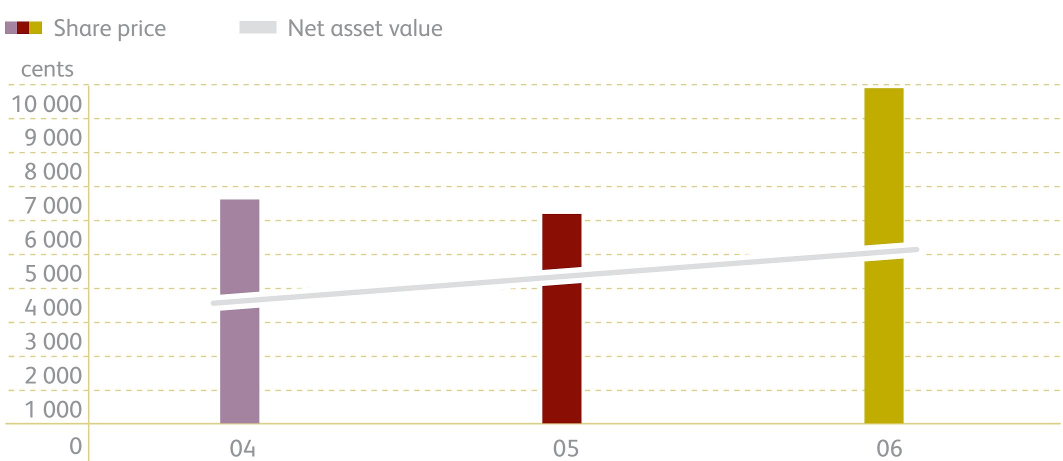
## Return on equity (headline)



# Financial summary

| | Year ended 31 Dec 2006 | 31 Dec 2005 |
|---|---|---|
| **Physical ('000 tonnes)** | | |
| Liquid steel production | 7 055 | 7 261 |
| Domestic sales | 4 400 | 3 485 |
| Export sales | 1 794 | 2 745 |
| **Financial (Rm)** | | |
| Revenue | 25 363 | 23 984 |
| EBITDA | 6 999 | 8 097 |
| Profit from operations | 5 833 | 6 894 |
| – Flat Steel Products | 3 550 | 4 518 |
| – Long Steel Products | 2 100 | 2 109 |
| – Mittal Steel Coke and Chemicals | 184 | 301 |
| – Corporate and other | (1) | (34) |
| Headline earnings | 4 646 | 5 077 |
| Net cash inflow | 2 200 | 1 057 |
| Total assets | 30 601 | 26 337 |
| **Share information (cents)** | | |
| Headline earnings per share | 1 042 | 1 139 |
| Dividends per share | 347 | 380 |
| **Financial ratios (%)** | | |
| Return on ordinary shareholders' equity (headline) | 22 | 29 |
| Net cash to equity | 31 | 23 |

## Net asset value vs share price



# Group review at a glance

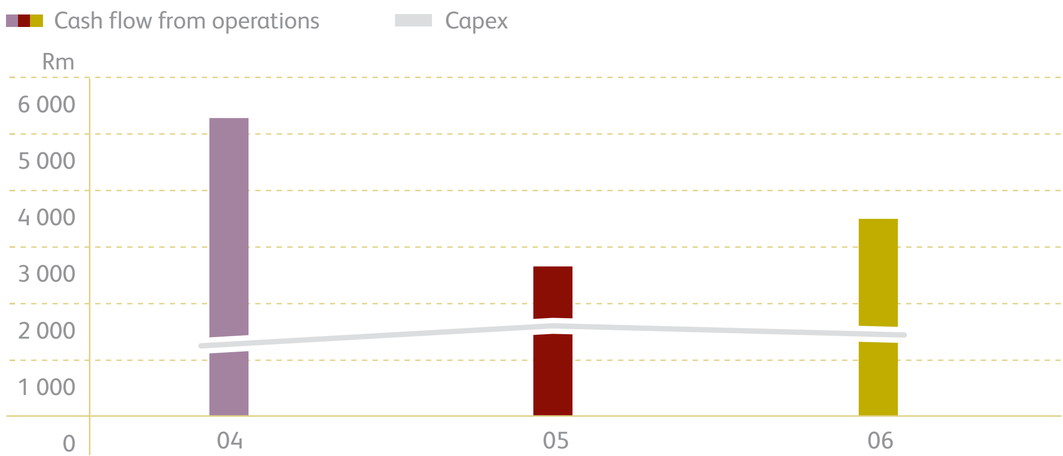
| | Year ended 31 Dec 2006 Rm | Year ended 31 Dec 2005 Rm | Year ended 31 Dec 2004 Rm | 6 months ended 31 Dec 2003 Rm | Year ended 30 Jun 2003 Rm | Year ended 30 Jun 2002 Rm |
|---|---|---|---|---|---|---|
| GROUP INCOME STATEMENTS | | | | | | |
| **Revenue** | **25 363** | 23 984 | 23 053 | 9 175 | 19 082 | 14 188 |
| **Profit from operations** | | | | | | |
| Flat Steel Products | **3 550** | 4 518 | 5 310 | 1 048 | 2 880 | 595 |
| Long Steel Products | **2 100** | 2 109 | 1 783 | 328 | 878 | 679 |
| Mittal Steel Coke and Chemicals | **184** | 301 | 462 | 99 | 142 | 121 |
| Business assistance agreement remuneration | | | (731) | (613) | | |
| Corporate and other | **(1)** | (34) | (97) | (137) | (166) | (87) |
| **Total** | **5 833** | 6 894 | 6 727 | 725 | 3 734 | 1 308 |
| Gains and losses on changes in foreign exchange rates and financial instruments | **480** | 246 | (52) | | | |
| Net interest income/(finance costs) | **193** | (29) | (139) | (71) | (144) | (391) |
| Income from investments | **7** | 5 | 5 | 2 | 8 | 3 |
| Net profit from equity accounted investments after tax | | | | | | |
| – Saldanha plant | | | | | | (288) |
| – Other | **135** | 277 | 258 | 67 | 85 | 55 |
| Taxation (excluding tax on equity income) | | | | | | |
| – Normal and deferred | **(2 002)** | (2 327) | (2 245) | (258) | (1 201) | (207) |
| Minority interest | | | (6) | (3) | | |
| Goodwill impairment added back | | 11 | | | | |
| **Headline earnings** | **4 646** | 5 077 | 4 548 | 462 | 2 482 | 480 |
| **Headline earnings per share (cents)** | **1 042** | 1 139 | 1 020 | 104 | 557 | 139 |
| Dividends per share (cents) | **347** | 380 | 400 | 75 | 200 | 40 |

| | Year ended 31 Dec | | | 6 months ended 31 Dec | Year ended 30 Jun | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 | 2004 | 2003 | 2003 | 2002 |
| | **Rm** | Rm | Rm | Rm | Rm | Rm |
| GROUP BALANCE SHEETS | | | | | | |
| **Assets** | | | | | | |
| **Non-current assets** | | | | | | |
| Property, plant and equipment | **14 526** | 14 260 | 12 701 | 12 218 | 12 221 | 11 993 |
| Intangible assets | **58** | 74 | 114 | 32 | 33 | 34 |
| Goodwill | | | 11 | 32 | 43 | |
| Investments in joint ventures – unlisted | **953** | 912 | 596 | 418 | 375 | 419 |
| Non-current loan receivables | **4** | 10 | 512 | 376 | 188 | 136 |
| Non-current financial assets | **134** | 61 | | | | 496 |
| **Current assets** | | | | | | |
| Cash and cash equivalents | **7 750** | 5 219 | 4 064 | 1 107 | 852 | 578 |
| Other | **7 176** | 5 801 | 5 586 | 4 391 | 4 697 | 4 458 |
| **Total assets** | **30 601** | 26 337 | 23 584 | 18 574 | 18 409 | 18 114 |
| **Equity and liabilities** | | | | | | |
| **Capital and reserves** | | | | | | |
| Total shareholders' equity | **22 943** | 19 451 | 15 895 | 12 971 | 12 815 | 11 104 |
| **Minority interest** | | | 7 | 5 | 2 | 2 |
| **Non-current liabilities** | | | | | | |
| Interest-bearing borrowings | **61** | 71 | 81 | 92 | 92 | 726 |
| Non-current provisions | **1 327** | 1 288 | 1 201 | 1 084 | 1 047 | 985 |
| Non-current finance lease obligations | **502** | 596 | | | | |
| Deferred taxation | **2 355** | 2 007 | 1 708 | 1 122 | 1 059 | 643 |
| **Current liabilities** | | | | | | |
| Interest-bearing borrowings | **10** | 10 | 10 | 988 | 10 | 1 487 |
| Current finance lease obligations | **93** | 89 | | | | |
| Other | **3 310** | 2 825 | 4 682 | 2 312 | 3 384 | 3 167 |
| **Total equity and liabilities** | **30 601** | 26 337 | 23 584 | 18 574 | 18 409 | 18 114 |

# Group review at a glance continued

| | Year ended 31 Dec | | | 6 months ended 31 Dec | Year ended 30 Jun | |
|---|---|---|---|---|---|---|
| | **2006 Rm** | 2005 Rm | 2004 Rm | 2003 Rm | 2003 Rm | 2002 Rm |
| CASH FLOW STATEMENTS | | | | | | |
| Cash flows from operations | **3 463** | 2 616 | 5 239 | (486) | 3 107 | 1 521 |
| Sale of assets | **9** | 6 | 14 | 46 | 88 | 487 |
| Capital expenditure | **(1 446)** | (1 608) | (1 254) | (499) | (1 176) | (969) |
| Investments | | | | | | |
| – Saldanha plant | | | | | | (228) |
| – Other | | | (5) | | 2 | |
| Take over of Saldanha plant loans | | | | | | (2 923) |
| Rights issue proceeds | | | | | | 1 670 |
| Other | **174** | 43 | (1) | 116 | (132) | 486 |
| **Net cash inflow/(outflow)** | **2 200** | 1 057 | 3 993 | (823) | 1 889 | 44 |

## Cash flow from operations and Capex



| | | Year ended 31 Dec | | 6 months ended 31 Dec | Year ended 30 Jun | |
|---|---|---|---|---|---|---|
| | **2006 Rm** | 2005 Rm | 2004 Rm | 2003 Rm | 2003 Rm | 2002 Rm |
| RATIOS | | | | | | |
| **Profitability and asset management** | | | | | | |
| Return on net assets ( % ) – Annualised | **23,7** | 33,9 | 38,8 | 10,4 | 25,6 | 9,1 |
| Return on ordinary shareholders' equity ( % ) – Annualised | | | | | | |
| – Attributable earnings ( % ) | **21,9** | 28,7 | 33,8 | 7,2 | 21,0 | 47,9 |
| – Headline earnings ( % ) | **21,9** | 28,7 | 31,5 | 7,2 | 20,8 | 5,6 |
| Return on invested capital ( % ) | | | | | | |
| – Annualised | **31,9** | 43,4 | 47,2 | 11,1 | 27,4 | 9,6 |
| Operating margin ( % ) | **23,0** | 28,7 | 29,2 | 7,9 | 19,6 | 9,2 |
| Net asset turn (times) – Annualised | **0,9** | 1,0 | 1,1 | 1,1 | 1,3 | 0,9 |
| **Solvency and liquidity** | | | | | | |
| Financing cost cover (times) | | 237,7 | 48,4 | 10,5 | 27,5 | 3,4 |
| Current ratio (times) | **4,4** | 3,8 | 2,1 | 1,6 | 1,6 | 1,1 |
| Net cash to equity ratio ( % ) | **30,9** | 22,9 | 25,0 | 0,2 | 5,9 | (10,3) |
| Cash realisation rate ( % ) | **58,6** | 40,5 | 87,6 | (41,3) | 80,1 | 172,2 |
| Number of years to repay net debt (years) | | | | 0,7 | | 0,5 |
| **Productivity** | | | | | | |
| Average number of employees ('000) | **9,8** | 10,9 | 12,0 | 12,9 | 13,2 | 13,6 |
| – Steel | **9,1** | 10,1 | 11,4 | 12,7 | 13,0 | 13,4 |
| – Corporate | **0,7** | 0,8 | 0,6 | 0,2 | 0,2 | 0,2 |
| Revenue per average employee (R'000) | | | | | | |
| – Annualised | **2 596** | 2 195 | 1 925 | 1 440 | 1 446 | 1 043 |
| Cash value added (Rm) | **8 695** | 10 627 | 9 440 | 2 845 | 6 674 | 4 911 |
| **Prices (actual invoiced) USD/t C&F** | | | | | | |
| Hot-rolled coil export price | **531** | 560 | 540 | 320 | 324 | 210 |
| Low carbon wire rod export price | **508** | 490 | 445 | 310 | 265 | 229 |

# Group review at a glance continued

| | 5-year annual compound growth rate* | Year ended 31 Dec 2006 | 2005 | 2004 | 6 months ended 31 Dec 2003 | Year ended 30 Jun 2003 | 2002 |
|---|---|---|---|---|---|---|---|
| **South African steel market ('000 tonnes)** | | | | | | | |
| Country total (including imports) | 8,9 | **5 869** | 4587 | 4872 | 2067 | 4449 | 4523 |
| Supplied by Mittal Steel South Africa (excl. Duferco) | 9,0 | **3 627** | 2 998 | 3 288 | 1 359 | 3 043 | 3 048 |
| Mittal Steel South Africa market share (excluding re-rollers) % Ave | 66,0 | **62** | 65 | 67 | 66 | 68 | 67 |
| **Steel** | | | | | | | |
| **Liquid steel production ('000 tonnes)** | | | | | | | |
| Flat Steel Products | 1,5 | **4 863** | 5 067 | 4 855 | 2 515 | 4 962 | 4 445 |
| Long Steel Products | 1,8 | **2 192** | 2 194 | 2 178 | 1 080 | 2 161 | 2 008 |
| **Total** | 1,6 | **7 055** | 7 261 | 7 033 | 3 595 | 7 123 | 6 453 |
| **Sales** | | | | | | | |
| **Local ('000 tonnes)** | | | | | | | |
| Flat Steel Products | 7,1 | **2 968** | 2 402 | 2 728 | 1 126 | 2 573 | 2 359 |
| Long Steel Products | 11,8 | **1 432** | 1 083 | 1 151 | 496 | 965 | 1 032 |
| **Total** | 8,5 | **4 400** | 3 485 | 3 879 | 1 622 | 3 538 | 3 391 |
| SA customers (%) Ave | 59,8 | **71** | 56 | 62 | 50 | 59 | 60 |
| **Export ('000 tonnes)** | | | | | | | |
| Flat Steel Products | 6,4 | **1 300** | 1 881 | 1 601 | 1 160 | 1 639 | 1 512 |
| Long Steel Products | (10,2) | **494** | 864 | 743 | 443 | 863 | 717 |
| **Total** | (6,4) | **1 794** | 2 745 | 2 344 | 1 603 | 2 502 | 2 229 |
| Export (%) Ave | 40,2 | **29** | 44 | 38 | 50 | 41 | 40 |

*Annualised

| | 5-year annual compound growth rate* % | Year ended 31 Dec 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|---|
| **International crude steel production (million tonnes)** | | | | | | | |
| Worldwide | 8,0 | **1 240** | 1129 | 1035 | 945 | 886 | 845 |
| Asia | 13,8 | **666** | 584 | 485 | 436 | 391 | 349 |
| Europe | 2,8 | **235** | 218 | 193 | 208 | 204 | 205 |
| Northern America | 1,9 | **131** | 127 | 133 | 123 | 124 | 119 |
| Commonwealth of Independent States | 3,7 | **120** | 113 | 107 | 106 | 100 | 100 |
| Other | 4,1 | **88** | 87 | 117 | 72 | 67 | 72 |

| | 5-year annual compound growth rate* % | Year ended 31 Dec 2006 | 2005 | 2004 | 6 months ended 31 Dec 2003 | Year ended 30 Jun 2003 | 2002 |
|---|---|---|---|---|---|---|---|
| **Share performance** | | | | | | | |
| Number of shares in issue (million) | | **446** | 446 | 446 | 446 | 446 | 446 |
| Weighted average in issue (million) | | **446** | 446 | 446 | 446 | 446 | 345 |
| Earnings per ordinary share | | | | | | | |
| – Basic earnings basis (cents) | 52,1 | **1 042,3** | 1 136,5 | 1 094,3 | 103,9 | 562,6 | 1 200,3 |
| – Headline earnings basis (cents) | 52,1 | **1 042,3** | 1 139,0 | 1 020,3 | 103,6 | 556,5 | 139,1 |
| – Cash equivalent basis (cents) | 33,7 | **1 392,3** | 1 473,2 | 1 341,8 | 265,8 | 869,5 | 421,7 |
| Dividend per ordinary share (cents) | 100,0 | **347,0** | 380,0 | 400,0 | 75,0 | 200,0 | 40,0 |
| Dividend cover (times) | | **3,0** | 3,0 | 2,6 | 1,4 | 2,8 | 3,5 |
| Net equity per ordinary share (cents) | 10,9 | **5 147** | 4 360 | 3 567 | 2 910 | 2 876 | 2 492 |
| Attributable cash flow per ordinary share (cents) | 100,0 | **815,9** | 596,5 | 1 175,3 | (109,7) | 696,6 | 726,1 |

**Annualised*

# Board of directors


1 **Khotso Mokhele** (51)
Independent non-executive Chairman
BSc (Agric), MS (Food Science), PhD (Microbiology).

Non-executive director since February 1998. Appointed Chairman of the Board on 1 January 2007. Chairman of the Safety, Health and Environmental (SHE) Committee and of the Human Resources and Remuneration Committee. Non-executive director of Impala Platinum Holdings Limited, African Oxygen Limited.

2 **Sudhir Maheshwari** (43)
Non-executive Director
BCom (Hons), CA CS

Non-executive director since December 2002. Member of the Audit Committee. Executive Vice President of Arcelor Mittal, member of the Arcelor Mittal Management Committee, responsible for Finance and M&A.

3 **Davinder Chugh** (50)
Non-executive Director
BSc (Physics), LLB, MBA

Appointed Senior Executive Vice President of Arcelor Mittal in September 2006. Previously Chief Executive Officer of Mittal Steel South Africa from September 2004 to September 2006. Previously Executive Director, Commercial, since May 2002. Former Vice President, Purchasing for Mittal Steel Europe.

4 **Malay Mukherjee** (59)
Non-executive Director
Masters Degree in Mining; Bachelor of Science Degree; Completed an advanced management programme

Appointed non-executive director on 6 September 2006. Senior Executive Vice President of Arcelor Mittal Group.

5 **Michel Wurth** (52)
Non-executive Director
Master of Sciences in Economics; Master of Law; Master of Political Sciences

Appointed non-executive director, 30 November 2006. Member of the Group Management Board of Arcelor Mittal.

6 **JJ Njeke** (48)
Independent non-executive Director
BCom, BCompt (Hons), CA(SA), Higher Diploma Tax Law

Non-executive director since 1 January 2002. Chairman of the Audit Committee. Deputy Chairman of Kagiso Media. Director of numerous companies including First Lifestyle (Proprietary) Limited, NM Rothschild (SA) (Proprietary) Limited, Compass Group (SA) (Proprietary) Limited, Metropolitan Holdings Limited and MTN Group Limited.

7 **Thandi Orleyn** (51)
Independent non-executive Director
BJuris, BProc, LLB, Hon PhD

Appointed non-executive director, on 1 February 2007. Director of South African Reserve Bank; Implats; Western Areas Limited; Toyota SA; Johannesburg Roads Agency; Cricket SA and Landelahni Recruitment Group.



8 **Rick Reato** (50)
Chief Executive Officer
BSc (Eng) (Electrical), Management Development Programme Certificate (1986), Executive Management Programme at Darden Business School, Virginia (1998)

Appointed Chief Executive Officer, 15 September 2006. Previously Chief Operating Officer at Mittal Steel South Africa Limited.

9 **Juba Mashaba** (40)
Executive Director, Human Resources
BA, LLB, MAP, HR Executive Programme, University of Michigan Business School

Executive Director, Human Resources since October 2004. Previously Executive Director, Human Resources for Simba (Proprietary) Limited and PepsiCo International (Sub-Sahara Africa).

10 **Kobus Verster** (40)
Executive Director, Finance
BCom (Hons), Masters degree in Business Leadership, Executive Management Programme, Darden Business School, Virginia

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

# Global presence Arcelor Mittal Group

- 330 000 employees in 60 countries
- Arcelor Mittal is the leader in all major markets, including automotive, construction, household appliances and packaging, with leading R & D and technology, as well as sizeable captive supplies of raw materials and outstanding distribution networks
- Industrial presence in 27 countries
- Pro forma revenue in 2006 of US Dollar 89 billion
- Production of 118 million tonnes, representing 10 % of the worlds crude steel output

# Chairman's and Chief Executive's report

By constructively engaging with our stakeholders and establishing our presence as a reliable line of supply, a secure employer and an expert in technology, manufacturing and human resource management, Mittal Steel South Africa materially contributes towards achieving our group's (Arcelor Mittal) vision to become "the world's most admired steel institution". During 2006 we further cemented our strategy through continued operational improvements in our plants, driving incremental improvements in productivity through enhanced human resources management and leveraging partnerships across industries and borders.

# Chairman's and Chief Executive's report continued

## DEAR SHAREHOLDER

As our first report as Chairman and CEO of Mittal Steel South Africa, it gives us great pleasure to reflect on the solid financial performance of the group over the past year. Having both been with the company for many years it is rewarding to see evidence that the difficult re-engineering and continuous improvement programmes we have implemented over the past few years have forged the company into a modern, high quality and globally competitive supplier of a wide range of steel products. The continued focus on plant, product and partnerships enabled us during 2006 to further cement our strategy through continued operational improvements in our plants, the driving of incremental improvements in productivity through enhanced human resources management and building of partnerships across industries and borders.

Mittal Steel South Africa is now well positioned for growth. Our relentless focus on driving down costs has enabled us to become one of the steel industry's lowest cost producers. This positive outlook is further enhanced by the projected healthy economic growth for South Africa and the African continent. As a subsidiary of the world's largest steel producer, the newly merged Arcelor Mittal Group, Mittal Steel South Africa is increasingly positioning itself as the "African arm" of the Group, with our recent acquisitions of two mills in Mozambique highlighting the potential of this expanded role.

We continue to focus our efforts on the structure of the balance sheet, taking into account our relines and expansion strategy, the funds required to secure our long-term iron ore and coking coal requirements and general working capital requirements. As part of this process, we remain committed to an R8 billion expansion plan, which will improve capacity to meet the increasing demand for our products. This is in addition to the R1 billion we will spend at our various operations over the medium to longer term to improve our environmental footprint.

With access to the latest technologies, world-class management expertise and the highest standards of quality within the Group, Mittal Steel South Africa will harness new synergies to make significant progress in our strategic aim to ensure that all our steel operations meet or better internationally benchmarked standards to remain a quality, low cost producer. The two-way transfer of skills within the Group, however, is evidence of the depth of skills within our South African operations, with Mittal Steel South Africa's method of applying total cost of ownership (TCO) in its management of costs now being implemented in the greater Arcelor Mittal Group.

Strategic improvements were again underpinned by leveraging core Arcelor Mittal Group processes to drive throughput improvements and cost reductions; pursuing attractive upstream investment opportunities; creating more value from the marketing end of the value chain; fully aligning the organisation with the Arcelor Mittal Group culture; and constructively engaging external stakeholders.

## GROUP PERFORMANCE

Supported by strong local and international macro-economic conditions, Mittal Steel South Africa's performance in the year ended December 2006 indicates that we have built a solid platform for growth. Domestic markets remained buoyant, with demand at record levels and domestic sales growing 26% to constitute 71% of total sales, compared to 56% the previous year. Our total shipments to Africa now constitute in excess of 80% of our total sales, compared to 66% the previous year. Despite a number of operational difficulties during the year and increases in raw material input costs of 19%, headline earnings for the year remained strong at R4 646 million although lower by 8% compared to the previous year. The increase in costs was partially offset by a significant increase in domestic sales volumes and a weaker Rand/US Dollar exchange rate. Liquid steel production fell 3%, however, several production records in downstream plants meant sales were only down 1% overall on the previous year.

Customer inventory levels remain at a historically low level of eight weeks, indicating that higher despatches were driven by real demand.

Mittal Steel South Africa's share performance has consistently outperformed the All Share Index. The Sunday Times award for the best performing stock in the Top 100 companies listed on the Johannesburg Securities Exchange (JSE) over the past five years is recognition that the stock is backed up by strong fundamentals.

Continuous improvement savings were marginally negative over the past year due to production interruptions. However, importantly, almost all the savings achieved in 2005 were sustained during 2006 as these savings are calculated on an incremental basis. Mittal Steel South Africa managed to improve labour productivity by 10%, despite lower production volumes, with employees per million tonnes produced down from 1 438 to 1 291.

## DIVIDEND

In line with the company's policy of distributing one third of headline earnings, the board declared a final dividend of 204 cents per share, which resulted in a total dividend in respect of 2006 earnings of 347 cents per share. This represents a decline of 8,7% compared to the 380 cents dividend declared in respect of the 2005 earnings.

## ECONOMIC AND STEEL MARKET REVIEW

International steel consumption increased 9% to over 1,12 billion tonnes in 2006, driven by an increase in world economic growth from 3,8% to 3,9%. Global consumption and production of steel increased by 9%, spurred on by expansion in the European Union and Japan, as well as rapid economic growth in China and India.

Following the decline in international steel prices in the latter part of 2005, low steel prices continued to prevail in the first half of 2006. However, prices improved in the second half of the year and are expected to increase further in financial year 2007, backed by a balanced supply and demand environment, high cost pressures and improved supply discipline.

China's steel production capacity continued to expand rapidly, and now represents more than a third of total world production. It is, however, encouraging that China's National Development and Reform Commission aims to bring about restructuring of the highly fragmented steel industry and phase out out-dated production capacity. China was a net exporter of 24,5 million tonnes of finished steel products during 2006 compared to a net importer of 5,3 million tonnes in 2005. However, based on current trends, the country's net export position is expected to decline during 2007.

Export volumes decreased by 35% during 2006 mainly due to significantly higher domestic demand. Average export prices for hot-rolled coil were 5% down on last year, while low carbon wire rod prices were up 4%. The upward trend in international prices that started during the second quarter of 2006 resulted in the average prices for hot-rolled coil and low carbon wire rod during the second half of 2006 exceeding the average prices obtained during the same period last year by 24% and 22% respectively. The lower volumes available for exports created the opportunity to withdraw from less attractive markets which in return also impacted positively on average export prices achieved.

In South Africa, steel-consuming sectors performed exceptionally well on the back of robust economic growth. Lower personal tax rates; the wealth effect created by sharp increases in house prices in recent years; and the recovery in employment creation spurred growth in a number of sectors to which we supply our products, particularly the automotive, furniture and appliances sectors. Demand was further driven by the need to alleviate infrastructural bottlenecks, which have developed as a result of solid economic growth. In addition, the construction industry saw growth of 14% as the build-up to the 2010 Soccer World Cup and the government's infrastructure development programme gained momentum. The depreciation of the Rand since May 2006 has supported the production side of the economy, benefiting the manufacturing, agriculture and mining sectors by being more competitive in the export market while increasing the scope for domestic production to replace value-added imports.

The result of this was that steel demand responded to this favourable environment and despatches to the local market increased by 26% in 2006. Preliminary numbers issued by the South African Iron and Steel Institute (SAISI) indicate a record annual domestic steel consumption of 5,8 million tonnes for 2006, 10% higher than the previous record set in 1981 and an increase of 27% over 2005. Imports of primary steel products into South Africa as reported by Customs and Excise have shown a steady upward trend during 2006. Projections indicate that for the full year it is likely to be in the order of 540 000 tonnes, an increase of 60% compared to 2005 and the highest level of imports in the past 30 years. In an effort to alleviate the capacity constraints of domestic producers on certain product ranges, we began to source slabs from within the broader Arcelor Mittal Group, while our recently commissioned new galvanising line at Vanderbijlpark adds an additional capacity of 100 000 tonnes per annum.

Our cost of steel sales per tonne increased by 15% compared to last year, driven by substantial increases in the cost of metallurgical coking coal, imported iron ore pellets, tin, nickel, aluminium, zinc, scrap and iron ore. Costs, especially of flat products, were further negatively impacted by production disruptions at both the Vanderbijlpark and Saldanha plants.

Given the quantum increase in raw materials prices, the global cost curve has moved up considerably. Fortunately, our high level of backward integration to a large extent sheltered us from some of these increases. During 2006 we were 97% self sufficient in the sourcing of iron ore on a cost plus basis, 58% of our scrap requirements were internally generated while 94% of our metallurgical coke requirements was produced by our own coke ovens.

Our biggest exposure remains the import of metallurgical coking coal and iron ore pellets for Saldanha. During 2006, 64% of our coking coal requirements had to be imported.

Other coal requirements, used in the manufacture of market coke and to inject as pulverised coal in our blast furnaces, are 100% sourced either through domestic supply agreements or from EXXARO at a cost plus basis.

Global consolidation in the global steel industry received new impetus with the Arcelor Mittal merger and the trend continues with Tata Steel taking over Corus. This will support a more stable market environment in the long term.

## OPERATIONS

Despite some operational challenges in 2006, with a number of abnormal events affecting production, we managed to limit the decrease in throughput to 3% compared to the previous year. Mittal Steel South Africa produced 7 055 million tonnes of liquid steel during 2006, compared with 7 261 million tonnes in 2005. The flat steel operations at Vanderbijlpark and Saldanha together produced 4 863 million tonnes of steel last year, making Mittal Steel South Africa the largest supplier of these commodities in Africa. We also produced 2 192 million tonnes of long steel products.

Vanderbijlpark produced 3,7 million tonnes of liquid steel during 2006, 4% less than 2005. This decrease was mainly due to a skip hoist failure at Blast Furnace D, two fire incidents and a cutback in production necessitated by a lack of iron ore due to rail delivery problems. Approximately 320 000 tonnes of liquid steel production was lost due to these incidents. However, Vanderbijlpark plant managed to set a number of monthly records, notably in blast furnace, colour coating, secondary metallurgy and continuous annealing production. The reline of Blast Furnace D was postponed from mid-2006 to February 2007 due to a shortage of skilled resources. The reline is scheduled to last for approximately 95 days. During 2006 Vanderbijlpark commissioned a new water treatment plant at a cost of R222 million, which made it a zero-effluent discharge facility. A new galvanising line and shot blast and prime facility were also commissioned during 2006.

Saldanha produced 1,2 million tonnes of liquid steel during 2006, 4% less than 2005. This decrease was mainly due to electricity and oxygen supply outages and resulted in a loss of approximately 90 000 tonnes of liquid steel production. Besides these incidents the plant experienced stable operational conditions and also achieved monthly production records at the steelmaking and hot strip mill plants. The Corex and Midrex plants are scheduled for relines during 2008. Saldanha continues to be a leader in emissions and environmental management, performing to world-class environmental standards.

Our long steel product plant had a good year, underpinned by stable operating conditions. The Newcastle plant produced 1,8 million tonnes and Vereeniging produced 390 000 tonnes of liquid steel, both in line with 2005. The liquid steel production at Newcastle was achieved despite the deteriorating hearth conditions on Blast Furnace N5, due for a reline in early 2008, and a brief cut-back in production necessitated by a shortage of iron ore due to rail supply problems. The Newcastle plant also posted an excellent performance on their other operations and broke three-year records at three of their four rolling mills.

The performance of our coke and chemicals business was characterised by a sharp decline in the international prices for market coke following large-scale expansions in coke-making capacity in China. However, the South African demand for market coke remained strong with the ferro-alloy industry still relying heavily on imports to satisfy requirements. Our newly commissioned coke battery at Newcastle should significantly reduce their dependence on imports. With the additional capacity and a steady increase in market coke prices during the second half of 2006, we expect a marked improvement in the profitability of Coke and Chemicals during 2007.

## PROGRESS ON OUR STRATEGIC MISSION

Over the past years, Mittal Steel South Africa has undergone a difficult restructuring process to ensure we maintain our competitive position in the global steel industry. We are now in a position to meet the increasingly complex requirements of our customers, maximise our potential for our shareholders, while making a meaningful and sustainable contribution to South Africa's economic growth.

The merger in 2006 between Arcelor SA and Mittal Steel Company A.G. to create Arcelor Mittal gave new impetus to global consolidation within the steel industry. The merger created the world's largest steel producer, with an unrivalled geographic footprint and reduced cyclicality through geographic and product diversification. The high level of vertical integration and financial flexibility will result in a leading position in the most attractive markets. Our partnership with Arcelor Mittal will provide us with access to leading-edge research and development as well as the latest technologies, which will support our global competitiveness. It will also assist us to provide the South African market with the latest in steel product technology.

We continue to work closely with Eskom to manage the significant demands for power within a growing South African market. Over the past year, we have demonstrated that we are able to successfully accommodate Eskom in terms of consumption reduction at peak periods and the power utility has reciprocated by assisting us to meet our energy demands.

Mittal Steel South Africa has a good working relationship with the management of Transnet and Spoornet, and the industry is collaborating to overcome the logistical challenges of current transport infrastructure. However, it will take time for the government's increased investment in infrastructure to manifest in efficiency gains in transportation for the steel industry.

Interaction with the Department of Trade and Industry (DTI) regarding pricing structures continues. Mittal Steel South Africa supports a fair pricing structure for all parties that enables steel production in South Africa to remain globally competitive. We also understand that we play an important role within the broader socio-economic context of South Africa. We believe that the current system of benchmarking our prices against the average of a basket of international producers, taking into account factors such as tariffs and transport, is one which will provide a sustainable model to transform the entire supply chain. This will create a solid foundation for job creation in the longer term. The expected conclusion of our discussions with the DTI will bring much needed clarity around the pricing issue.

In addition, a ruling from the Competitions Tribunal is expected in the second quarter of 2007 with regard to the claim of excessive pricing involving DRDGold and Harmony Gold. We believe that no significant exposure exists in this regard and no provision has been raised.

Positive conditions in international markets during 2006 led to only one new anti-dumping case initiated against South Africa – Thailand's case on wire rod.

Developments in existing cases continue with anti-dumping duties on hot-rolled coil remaining at 55,3% to Argentina, 128,1% to Thailand and 15% to the US, as well as normal value agreements (calculated export prices) applicable for sales to Canada. The US International Trade Commission has decided to undertake a full review of previously imposed anti-dumping and countervailing duties on hot-rolled sheet from South Africa.

An alternative dispute resolution hearing was held in December regarding the South African Revenue Service's (SARS) disallowance of the tax deduction of the payments made in terms of the Business Assistance Agreement. We are currently awaiting the SARS' response to the outcome of the proceedings.

## MANAGING OUR HUMAN CAPITAL

After a number of years of organisational restructuring, Mittal Steel South Africa's continued improvement in its human capital management is evident in a more productive workforce.

Retaining and developing high quality talent is to be a cornerstone of Mittal Steel South Africa's human capital management strategy. In 2006 we implemented a new employee engagement programme, which is intended to help us rebuild a culture of commitment and focus. In addition, an improved and competitive performance incentive scheme was introduced as part of an overall strategy to retain top talent in an environment where skills are scarce and in demand.

In 2006 we extended the no forced retrenchment agreement with our three unions to the end of 2007, while also extending our long-term wage agreement by another two years. The former agreement, which follows from the one successfully negotiated in 2004, is expected to maintain a stable organisational climate conductive to high performance at Mittal Steel South Africa.

Re-focusing our employment equity drive on the development of a talent pipeline has seen a growing portion of our workforce coming from designated groups. Last year, Mittal Steel South Africa invested R33 million in training programmes for our employees – 1,5% of our payroll. We will employ an additional 100 apprentices over and above our normal intake of 280 in 2007 and will begin a technical conversion programme for some of our artisans to become technicians.

The year under review saw Mittal Steel South Africa leverage a number of leadership and skills development opportunities through our association with the Arcelor Mittal Group, and we expect these to develop further during the coming financial year. Read more about this in our sustainability report.

## BROAD-BASED BLACK ECONOMIC EMPOWERMENT (BBBEE)

Following the recent finalisation of the DTI Codes of Good Practice, Mittal Steel South Africa's executive team will formulate a Broad-Based Black Economic Empowerment policy that will ensure compliance with the new pillars outlined in the Codes in the coming years.

Mittal Steel South Africa considers economic and social transformation an integral part of its business strategy. Central to this is the implementation of broad-based BEE, managed through the balanced scorecard approach which measures our contribution across a range of relevant indicators. Our focus has been on employment equity – creating a pipeline of skills to increase the representation of historically disadvantaged individuals at different levels within the business.

At board and senior management level we have attracted top talent from a diverse range of experiences and backgrounds – four directors are black, three of Indian descent and three are white. Over the past years, we have also significantly increased the number of historically disadvantaged employees at technical, supervisory and managerial levels through a targeted recruitment and retention strategy. Overall, 17% of our senior management are from designated groups, up from 15% in 2005; 35% of professionals (2005: 32%); and 30% (2005: 30%) of our first line managers.

We continued to improve the intake ratio of historically disadvantaged groups in the granting of bursaries, training and management development opportunities, allocating 90% of bursaries to candidates from designated groups. In addition, 72% of our engineers in training, 86% of learner artisans and 100% of learner technicians are candidates from designated groups. See our sustainability report for more details.

# Chairman's and Chief Executive's report continued

## CORPORATE GOVERNANCE AND SUSTAINABILITY

Mittal Steel South Africa remains committed to the highest standards of integrity and ethical conduct in dealing with all stakeholders. The board has embraced the standards of corporate governance contained in the second King Report on Corporate Governance for South Africa 2002.

The company subscribes to a code of ethics that secures adherence to uniform principles of good practice, promotes and maintains confidence in the integrity of the organisation. The code's policies and guidelines spell out the ethical principles that our shareholders, customers, suppliers and community at large can expect in their relationship with Mittal Steel South Africa.

Mittal Steel South Africa is committed to engaging in meaningful relationships with its suppliers, customers and the broader community in which it operates. In recognition of this, we have published a separate sustainability report which may be accessed online at www.mittalsteelsa.com. Our sustainability report provides commentary and metrics detailing our triple bottom line performance, measuring our progress on an economic, social and environmental basis.

## HEALTH, SAFETY AND ENVIRONMENT

Mittal Steel South Africa delivered its best-ever performance in terms of safety during 2006, improving on good results in 2005. All business units have been certified under OHSAS 18001 and remain committed to providing a safe workplace for all our employees. During 2006, our Vanderbijlpark plant achieved one million disabling injury free hours seven times during the year, while this was achieved twice at our Newcastle plant. Safety performance at the Saldanha plant remains among the best in the world.

By introducing a number of interventions including engineering changes to our work environment, a massive awareness campaign and stricter controls for the wearing of personal protective equipment, we reduced the Occupational Disease Frequency Rate per million man-hours worked from 1,60 to 0,50 over the past year – an achievement we are particularly proud of.

Over the past few years Mittal Steel South Africa has transformed itself into a world-class company in terms of environmental performance. We are serious not only about meeting the requirements of the local environmental legislative framework, but establishing our company as a global leader in environmental management of our air, ground and water resources.

We have committed R1 billion over the medium to longer term to fulfil this target. Each operation now has a master plan, with step-by-step actions to address each of the associated unique environmental challenge. By investing in innovative technology, our Saldanha and Vanderbijlpark operations are now zero-effluent discharge plants. Saldanha is recognised as an industry leader in terms of environmental management. A reverse osmosis plant at Newcastle is the second last phase to transform this operation into a zero-effluent discharge facility during 2007. Significant progress has been made in reducing our impact on ground and water resources across our operations.

A number of large environmental projects are planned for 2007. At our Vanderbijlpark operation, a R310 million coke plant gas and water cleaning project is scheduled to be commissioned in early 2007, and the installation of new dust extraction systems on the three electric arc furnaces, scheduled for 2008, will have a significant positive impact on air quality in the area. This will not only result in enhanced management of air quality, but in improved capacity and efficiency.

A detailed report on our environmental performance can be found in our sustainability report.

## HIV AND AIDS

We recognise the negative impact of the HIV and Aids epidemic not only on our employees and their families, but on the country as a whole. This has seen Mittal Steel South Africa implement a comprehensive HIV/Aids response strategy. During 2006, we hired dedicated HIV/Aids co-ordinators at our Vanderbijlpark and Newcastle plants.

Through a successful "Know Your Status" campaign, aimed at encouraging employees to undergo voluntary counselling and testing (VCT), 38% of the total workforce have been tested and know their HIV status. During 2006, only 4% of these cases tested HIV-positive, compared to a previous prevalence of 10%. The reason for this relative prevalence could be that the already infected and high risk population have not undergo testing.

The company provides counselling and support for HIV affected employees, as well as medical coverage through a number of company-sponsored medical aid schemes. In addition, nutritional supplements for employees not on one of the company's medical aid schemes are provided. The relatively low take-up of the employee support programme by HIV-positive employees is a concern and reflects high levels of fear of discrimination. A dedicated and sustainable behaviour change strategy will be put in place in 2007 to tackle these challenges.

## CORPORATE SOCIAL INVESTMENT

As a major player in South Africa's manufacturing sector, Mittal Steel South Africa aims to be a leader in developing people both within our company and within the communities in which we operate. Through the Mittal Steel South Africa Foundation, over R200 million has been invested over the past few years with charitable and education organisations involved in a variety of community development programmes.

Our integrated approach to corporate social investment focuses on projects that will help to transform South Africa's economic landscape in the years to come. In particular, we are committed to building science, technology and engineering skills through a number of projects. In the past year, we focused on establishing the Mittal Steel South Africa Science and Educational Centre, as well as sponsoring the Science Unlimited exhibition, Mittal Steel Science Olympiad and Sport Development Fund. These are in addition to our involvement in environmental initiatives such as the successful Collect-A-Can recycling project.

A more detailed report of our corporate social investment activities can be found in the separate sustainability report.

## BOARD CHANGES

Having been a non-executive director of Mittal Steel South Africa since February 1998, Khotso Mokhele took up the mantle of non-executive Chairman of the board from Khayakhulu Ngqula in January 2007. On behalf of the board, we would like to thank Khaya for his contribution to the board since 2001.

After two years as CEO, Davinder Chugh has moved on to play a role within the bigger Arcelor Mittal Group as Senior Executive Vice President of Arcelor Mittal. The board would like to thank Davinder for the leadership role he played in guiding Mittal Steel South Africa during its transformation into the leading steel producer it is. He remains on the Mittal Steel South Africa board as a non-executive director.

Rick Reato was appointed Chief Executive Officer of Mittal Steel South Africa as of September 2006, having joined the company in 1979. Previously, Rick was the company's Chief Operating Officer.

Johan Fourie, who served in various senior positions at Mittal Steel South Africa, adds gravitas to our senior management team, taking up the role of Chief Operating Officer with effect from September 2006.

Kobus Verster was appointed Executive Director, Finance with effect from February 2006. Kobus brings much experience to the boardroom table, having previously worked as General Manager Corporate Treasury at Mittal Steel Company A.G. in Rotterdam.

We also welcome Malay Mukherjee who was appointed a non-executive director in September 2006. Malay is a member of the Group Management Board of Arcelor Mittal. Michel Wurth also joined the board as a non-executive director. Michel is a member of the Group Management Board of Arcelor Mittal. With effect from February 2007, Thandi Orleyn joins the board as non-executive director of Mittal Steel South Africa.

We would also like to thank Lakshmi Mittal and Aditya Mittal, who stepped down with effect from November 2006 and September 2006 respectively. Both Lakshmi and Aditya have played an important role in contributing to the strong performance of the broader Mittal Group and to the South African operations in particular, bringing invaluable international experience and expertise to the local board since 2002.

### PROSPECTS

We expect the production environment to remain stable during 2007, enabling us to capitalise on efficiency gains and increased global demand. The International Iron and Steel Institute (IISI) predicts a 5% increase in global steel consumption from 1,12 billion tonnes in 2006 to 1,18 billion tonnes in 2007. International steel prices are expected to be stronger, backed by a balanced supply and demand environment, high cost pressures and improved supply discipline, and characterised by less volatility in the coming year.

Regional and country differences in consumption growth will come into play with Chinese, Asian, North American Free Trade Agreement (NAFTA) and EU demand expected to slow, while steel demand in India, Latin America and the Middle East is expected to grow more rapidly.

Chinese demand is expected to grow by 14% over the next 12 months. The surge in China's steel consumption, which now accounts for 33% of global world consumption, as well as strong economic growth in emerging markets is expected to continue driving growth. After the recent change in the Chinese export tax regime, there is uncertainty in Asia on the likely direction of future prices. Given the low stock levels among consumers throughout the region, prices are expected to stabilise during the first quarter of 2007.

Domestic demand is also expected to increase further, ahead of the government's multi-billion rand infrastructure development programme. This includes the expansion of the electricity system, the upgrade and construction of new rail infrastructure and the refurbishment and building of stadiums for the 2010 Soccer World Cup.

We intend to use various channels to capture this strong local demand, including focusing on production stability, diverting exports to the local market and importing from group companies. Our capability to meet local demand will be driven internally and through our global network. We continue with a number of expansion projects to improve capacity as part of our medium-term capital expenditure programme. These include relines, maintenance programmes, steel capacity increases, downstream value-adding projects and environmental investments.

The R578 million relining of the Vanderbijlpark Blast Furnace D during the first quarter of 2007 will result in improved efficiencies and increased capacity. Ensuring consistent iron ore supply remains a top priority, with continued discussions with Kumba Iron Ore under way. A plan to install more straightening capacity and increasing bar mill capacity at Newcastle is currently being evaluated. Additional iron-making capacity at Vanderbijlpark or Newcastle is also under consideration. We are also investigating the feasibility of additional downstream capacity at flat and long facilities.

APPRECIATION

We would like to thank the board for their guidance and counsel in helping us forge a globally competitive steel producer and each of our employees, who are integral to the sustainable growth of our business. We will continue to work towards a sustainable, prosperous future for all our stakeholders.

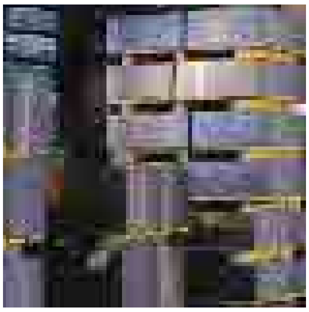
**Khotso Mokhele**
Chairman

**Rick Reato**
Chief Executive Officer

# Operational review

## Flat Steel Products

### The past year was marked by outstanding performance improvements in our two flat steel plants, though these were offset to a certain extent by a number of abnormal operational events which affected production.


Mittal Steel South Africa's flat steel operations at Vanderbijlpark and Saldanha together have a capacity to produce 5,9 million tonnes of steel per annum, making Mittal Steel South Africa the largest supplier of these commodities in Africa. Our flat steel products are used in a variety of industrial applications, including those in the automotive sector, construction, civil and mechanical engineering, processing, domestic appliances and packaging industries.

The Vanderbijlpark plant produces a wide range of products, including hot-rolled steel in coil and plate; cold rolled; hot-dipped galvanised; electro-galvanised; colour coated and tinplate coil as well as sheet steel. The Saldanha plant produces mainly thin and ultra-thin gauge hot-rolled coil.

MARKETS

| | % of total sales | |
|---|---|---|
| **Geographical sales distribution** | **2006** | 2005 |
| South Africa | **70** | 56 |
| Asia | **13** | 28 |
| Americas | **2** | 1 |
| Europe | **5** | 3 |
| Africa | **10** | 12 |

# Operational review continued

| Local market segmentation | % of total sales 2006 | 2005 |
|---|---|---|
| Building and construction | **33** | 30 |
| Pipe and tube (welded) | **26** | 26 |
| Packaging | **14** | 17 |
| Automotive | **15** | 13 |
| Mining, energy, water, chemicals and gas | **5** | 7 |
| Furniture and appliances | **3** | 3 |
| Machinery and equipment | **2** | 2 |
| Agriculture | **1** | 1 |
| Transportation | **1** | 1 |

### Domestic

Growth in the domestic demand for flat steel products during 2006 was driven by a growing local economy. This spurred demand in flat-steel-consuming industries related to the automotive, furniture, appliances and other durable goods sectors. During 2006, the flat steel division's domestic sales volumes increased by 24% on the previous year, representing 70% of total flat steel sales, compared with 56% the previous year.

### International

International prices for flat products showed a remarkable improvement during the second half of 2006, following the decline which started during the second half of 2005 and continued to prevail during the first half of 2006. Exports decreased towards the end of 2006, mainly due to the significant domestic growth experienced, as well as slab inventory build up in anticipation of the Blast Furnace D reline at Vanderbijlpark, scheduled for the first quarter of 2007. Total export sales of flat products during 2006 constituted only 30% of total flat product sales as compared to 44% in 2005. The reduction in exports allowed us the opportunity to withdraw from the less attractive Asian markets which also assisted in achieving higher average export prices.

OPERATIONAL RESULTS

| | Year ended 31 December 2006 | 2005 |
|---|---|---|
| Revenue (Rm) | **17 350** | 16 371 |
| Net operating income (Rm) | **3 550** | 4 518 |
| Liquid steel production ('000 t) | **4 863** | 5 067 |
| Sales volumes ('000 t) | **4 268** | 4 283 |
| – Domestic | **2 968** | 2 402 |
| – Export | **1 300** | 1 881 |
| Domestic sales (%) | **70** | 56 |
| Capital expenditure (Rm) | **949** | 1 114 |
| Hot-rolled coil export price – USD/t (c&f) | **531** | 560 |

Operating profit for the flat products division declined by 21% in 2006, driven mainly by an increase in the cost of input materials, particularly zinc, used in galvanised flat products, coal, alloys, scrap, iron ore and imported iron ore pellets for the Saldanha plant. Production interruptions also had a significant impact on the cost of the flat product plants.

The past year was marked by outstanding performance improvements in our two flat steel plants. However, these were offset by a number of unfortunate operational incidents which affected production. This resulted in total liquid steel production in flat products falling from 5,1 million tonnes in 2005 to 4,9 million tonnes in 2006. Production decreased by 4,0% to 3,67 million tonnes at the Vanderbijlpark plant and by 4,2% to 1,2 million tonnes at the Saldanha plant. At Vanderbijlpark production was impacted by a skip hoist failure at one of the blast furnaces, two fire incidents as well as a cut-back in production due to delivery problems of iron ore. At Saldanha electricity and oxygen supply outages impacted production. Vanderbijlpark lost approximately 320 000 tonnes and Saldanha approximately 90 000 tonnes as a result of these incidents.

Despite these operational setbacks, the Vanderbijlpark plant managed to set a number of monthly records, notably in blast furnace, colour coating, secondary metallurgy and continuous annealing production.

At Saldanha both the yield and availability constantly exceeded targets, whilst maintaining low roll wear rates. The plant achieved various production records, including monthly hot-rolled coil and steelmaking production records.

CAPITAL EXPENDITURE

| | Year ended 31 December | |
|---|---|---|
| | **2006 Rm** | 2005 Rm |
| Value-adding | **224** | 118 |
| Replacements | **648** | 679 |
| Environmental | **77** | 317 |
| **Total** | **949** | 1 114 |

During the past year, R949 million was spent on capital projects in the flat steel division. Of the total amount, R648 million went towards asset replacements, R224 million towards value-adding projects and R77 million was spent on environmental projects.

The reline of Blast Furnace D, originally planned for mid 2006, was postponed to February 2007 mainly due to a shortage of skilled resources and availability of sound construction companies. The project was faced with these limitations due to other large projects planned in the region during the same period. During 2006 Vanderbijlpark commissioned a new water treatment plant at a cost of R222 million, a new galvanising line at a cost of R110 million and a new shot blast and prime facility at the plate mill at a cost of R7 million.

# Operational review continued

## CONTINUOUS IMPROVEMENT

| | Year ended 31 December | |
|---|---|---|
| | **2006** | 2005 |
| Number of employees | **5 085** | 5 843 |
| Cost savings (Rm) (year on year) | **(186)** | (62) |
| Total HRC cash cost Rand per tonne | **2 150** | 1 949 |
| Total HRC cash cost US Dollar per tonne | **318** | 307 |

Both the Vanderbijlpark and Saldanha plants posted poor cost savings, recording negative savings of R186 million for 2006. This was mainly driven by the instability caused by production interruptions which impacted both the efficiencies and direct costs of production. Labour productivity decreased by 13% compared to a 4% reduction in liquid steel production.

A significant effort was put into improving the Vanderbijlpark plant's quality performance with the main focus on automotive steel and tin material.

The most significant progress during the year was achieved when the quality personnel became significantly more involved in our customers' processes. In some cases, customers were included in the decision-making process of the production of material for prime application. This initiative will certainly be of benefit to the company and its customers in future.

## PRODUCT DEVELOPMENTS

A number of product developments took place during the year, with mixed results. The main focus was on the development of line pipe material at the Hot Strip Mill and Plate Mill. The Hot Strip Mill successfully produced X65 line pipe material commercially, but the higher quality specifications of X70 line pipe material is still hampered by some technical constraints. The Plate Mill successfully commissioned its accelerated cooling facility, and was able to produce X65 plate on an experimental basis. The focus is still on improving not only the line pipe production, but also off-shore applications.

## SAFETY, HEALTH AND ENVIRONMENT

The safety performance of both plants improved significantly during 2006. New initiatives, implemented at regular intervals, are planned for the year ahead to ensure that the improvement in safety performance is maintained.

The downward trend in occupational health problems continued during 2006 and we continue to monitor the processes and interventions that have been put in place and make changes and adjustments where necessary.

As part of the first phase of Mittal Steel South Africa's environmental Master Plan, a R222 million water treatment and desalination facility was commissioned at the Vanderbijlpark plant to reduce water pollution. This resulted in the operation achieving a zero-effluent discharge status.

This equates to a 46% reduction in water abstraction and, as the Vanderbijlpark plant is the biggest plant within the group, this will have a significant impact on the total water abstraction figures for the organisation.

The integrated Saldanha operation has been a zero-effluent plant since its inception; comprehensive water treatment and desalination processes ensure that all process effluent is re-used. The plant has a water consumption figure of 2,2$m^3$ per tonne of crude steel produced – in line with world-class environmental performance.

## THE YEAR AHEAD

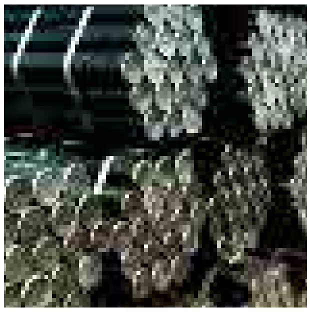
With respect to the domestic demand for flat steel products the market outlook for 2007 is positive. The increased requirements for domestic flat product seen towards the end of 2006 are expected to continue into 2007, underpinned by a number of large capital investment projects driven by governmental spending. International steel prices are expected to further improve during the first quarter of 2007, backed by strong demand.

The production facilities at the Vanderbijlpark plant will not be operating at full capacity during the first half of 2007 due to the reline period of 95 days required for Blast Furnace D. The domestic demand has however been catered for by importing slabs to compensate for the foreseen shortfall. At the same time, the significant increase in demand for galvanising material has been partially addressed by the commissioning of an additional galvanising line during the last quarter of 2006. This should ease the constraint on the supply of galvanising material by 100 000 tonnes per annum to the market during 2007. After the completion of Blast Furnace D's reline period, all operating units will be pushed to maximum capacity again from June 2007 onwards, serving both the domestic and export market.

Quality improvement will remain a strong focus during 2007, with further actions to improve the quality performance to world standards. These actions include intensifying the involvement of expertise within the Arcelor Mittal Group, exposure of Vanderbijlpark employees to the quality control practices at world-class operations within the group, improving the usefulness of surface quality detection systems at the Vanderbijlpark plant, and continuous improvement activities on individual defect appearances.

Cost control will, as always, be a priority and will be managed and controlled on a daily basis, supported by control systems.

The flat steel division's tightly managed cost structure and extensive product range will ensure that our growth prospects in the southern African flat steel market remain positive, while strong demand for our products remains established in global steel markets.

## Long Steel Products

Domestic demand for our long steel products continues to grow, driven mainly by growth in the construction sector with associated growth in the machinery and equipment sectors. We aim to fully satisfy local demand while remaining one of the lowest cost producers of steel in the world.

Mittal Steel South Africa's long steel business comprises an integrated steel works at Newcastle and an electric arc furnace-based steel works at Vereeniging. The division produces a comprehensive range of long products, comprising rolled and forged carbon and alloy steel profiles. These include rod, bar, light, medium and heavy sections, window and fencing profiles, billets and blooms as well as an extensive range of hot-finished and cold-drawn seamless tubes.

The long steel division services customers in the manufacturing, construction, mining, automotive, agricultural, general engineering and petrochemical industries. These customers are either supplied directly by Mittal Steel South Africa, or indirectly through a system of merchants.

During 2006, our production of finished products was close to the division's full capacity of approximately two million tonnes per annum. The division's operations remain among the lowest cash cost producers of steel in the world. Our competitive cost position, extensive product range and capability to manufacture high-quality, value-added products place us in a prominent position in both South African and global steel markets.

MARKETS

| Geographical sales distribution | % of total sales 2006 | 2005 |
|---|---|---|
| South Africa | 74 | 56 |
| Far East | 2 | 10 |
| North America | 6 | 5 |
| Europe | 3 | 5 |
| Indian Ocean | 1 | 5 |
| East Africa | 5 | 8 |
| Middle East | 6 | 7 |
| South America | 2 | 2 |
| West Africa | 1 | 2 |

| Local market segmentation | % of total sales 2006 | 2005 |
|---|---|---|
| Construction | 43 | 35 |
| Machinery and equipment | 22 | 21 |
| Energy, mining, chemicals and water | 18 | 20 |
| Automotive | 9 | 10 |
| Agriculture | 5 | 7 |
| Furniture and appliances | 3 | 7 |

### Domestic

Domestic demand for long steel products was exceptionally strong during 2006, driven mainly by growth in the construction sector with associated growth in the machinery and equipment sectors. The division's domestic steel volumes increased by 32% during 2006. This represented 74% of total long steel sales compared to 56% last year.

The local construction industry grew 14%, driven by infrastructural preparations for the 2010 Soccer World Cup as well as the government's broader infrastructure development programme. This drove demand for long steel products in the construction industry, with construction-related sales climbing to 43% of total sales. Sales to the manufacturers of machinery and equipment remained strong with a year-on-year increase from 21% to 22% of total long steel sales. The energy, mining, chemicals and water sectors also experienced solid growth and steel products serving these industries represents 18% of our total sales, marginally down on last year.

### International

On the back of strong global growth, particularly in India and Japan, demand for long steel products in the global market remained buoyant during 2006. Compared to 2005, the average selling prices for long steel products were higher during 2006, driving revenue growth. However, exports from the long steel division decreased over the year, due to increased demand in the local market.

# Operational review continued

OPERATING RESULTS

| | Year ended 31 December 2006 | 2005 |
|---|---|---|
| Revenue (Rm) | **7 691** | 7 161 |
| Net operating income (Rm) | **2 100** | 2 109 |
| Liquid steel production ('000 t) | **2 192** | 2 194 |
| Sales volumes ('000 t) | **1 926** | 1 947 |
| – Domestic | **1 432** | 1 083 |
| – Export | **494** | 864 |
| Domestic (%) | **74** | 56 |
| Capital expenditure (Rm) | **169** | 317 |
| Average low carbon wire rod export price – USD/t (c&f) | **508** | 490 |

Operating income for the long steel division was unchanged from 2005. This was the net result of higher local volumes, higher average sales prices and cost containment through our Continuous Improvement Programme being offset by a decrease in export sales volumes and a substantial increase in the cost of input materials – notably iron ore, coal, scrap and alloys.

Liquid steel production remained unchanged compared to 2005, and the Newcastle plant achieved a number of operational records in various areas in an exceptional year. Quality continued to improve, building on an already strong performance in the previous year.

CAPITAL EXPENDITURE

| | Year ended 31 December 2006 Rm | 2005 Rm |
|---|---|---|
| Value-adding | **27** | 167 |
| Replacements | **125** | 116 |
| Environmental | **17** | 34 |
| **Total** | **169** | 317 |

During the year, R169 million was spent on capital projects in the long steel division, of which 74% or R125 million was dedicated to maintaining operational capacity. Of the R27 million for new plants, R12 million was used to complete the coke ovens battery 3 & 4 upgrade, which was started during 2003. A further 10% or R17 million was used for environmental projects, of which R10,5 million was spent on the evaporator crystalliser plant due for completion during 2008.

## CONTINUOUS IMPROVEMENT

| | Year ended 31 December | |
|---|---|---|
| | **2006** | 2005 |
| Number of employees | **2 890** | 3 502 |
| Cost savings (Rm) (year on year) | **228** | 103 |
| Total billet cash cost per tonne (R) | **1 990** | 1 830 |
| Total billet cash cost per tonne (USD) | **294** | 288 |

The long steel division's Continuous Improvement Programme aims to reduce costs and achieve world-class standards in all business areas. The programme gained further momentum during the year as the pulverised coal injection (PCI) plant became operational for the full year, reducing the use of expensive imported coal. An additional R228 million of continuous improvement savings were realised.

The total operating cash cost of billets increased by 9% in Rand terms and 2% in US Dollar terms. This was due to substantial increases in global alloy prices, higher imported coal prices, higher scrap prices and rising iron ore prices.

The Continuous Improvement Programme is expected to deliver further significant savings during the new financial year.

## PRODUCT DEVELOPMENT

During 2006 15% of the long products we made were unique. The Angles Equal Leg, Channels Parallel Flange and Round Bar at our Newcastle plant as well as Hexagon, Fish Plate and Hollow Drill steel at our Vereeniging plant were the most significant new products developed during 2006.

## SAFETY, HEALTH AND ENVIRONMENT

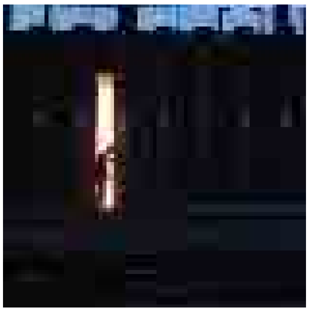
Although 2006 did not start off well in terms of safety performance, by the end of the year the combined Disabling Injury Frequency Rate (DIFR) showed a downward trend. Following a fatality in March and six disabling injuries in April, we managed to improve safety performance to the extent that no disabling injuries were reported in August, and the Newcastle plant achieved one million disabling injury free man-hours twice during the second half of 2006. We achieved the target of 3,3 DIFR by year-end. We continue to focus on safety improvement programmes in an effort to eliminate work-related fatalities and to meet our goal of zero injuries.

## THE YEAR AHEAD

Domestic demand for long steel products is expected to be higher during 2007 due to government infrastructure spending and the continued growth of the domestic economy.

However, operating income is expected to decline from the levels achieved during 2006, mainly as a result of lower export volumes and higher input costs, partially offset by higher sales prices and higher local volumes. The lower export volumes are necessitated by a billet inventory build-up plan in anticipation of Blast Furnace N5 reline planned for early 2008.

During 2007 the long steel division will focus on the development of a number of new products, in particular Hollow Drill Lancing Rods. The division will also need to manage production facilities to supply the buoyant local demand, especially on certain products such as Rebar. In addition, the commissioning of operations in Mozambique will remain an important project for the long steel division in the coming year.



## Mittal Steel Coke and Chemicals

### Incremental increases in capacity in the ferro-alloy industry, a key coke-consuming sector, continued to drive demand for this division. Domestic demand for market coke remains strong, and additional market coke capacity will enhance the reliability of local supplies and decrease the dependence on imports in the coming year.

The core business of the coke and chemicals division is the production of market coke for the ferro-alloy industry from coke batteries located in Pretoria, Vanderbijlpark and Newcastle. The division also processes and beneficiates metallurgical and steel by-products, mainly to produce coal tar pitch for sale to aluminium producers in southern Africa. Coke is used worldwide in blast and other furnaces, as it has few impurities and is rich in carbon. We supplied about 41% of South Africa's market coke requirements during 2006. Our market share should increase to about 80% subsequent to the commissioning of the new coke oven battery at Newcastle, but expectations are that it will decrease to about 73% after the commissioning of additional ferro-alloy production capacity.

#### MARKET OVERVIEW

During 2006 domestic market conditions for market coke remained strong, driven by increases in capacity in the ferro-alloy industry, a key coke-consuming sector. Our newly commissioned coke battery in Newcastle will help to address these capacity limitations. The international prices for market coke continued to decline during 2005 and 2006, following the record levels achieved during 2004. This was mainly due to large-scale expansion of coke-making capacity in China. However, since the second quarter of 2006, prices have started to show a steady increase, although ending the year on levels still well below the average levels achieved during 2005.

## OPERATIONAL RESULTS

| | Year ended 31 December | |
|---|---|---|
| | **2006** | 2005 |
| Revenue (Rm) | **1 033** | 1 057 |
| Net operating profit (Rm) | **184** | 301 |
| Capital expenditure (Rm) | **325** | 172 |
| Sales volumes | **1 899** | 1 774 |
| – Coke | **597** | 445 |
| – Tar | **133** | 128 |
| – Other | **1 169** | 1 201 |
| Number of employees | **268** | 316 |

The division's revenue decreased 2,3% to R1 033 million, and operating profit declined 39% to R184 million compared to figures for the previous year. The decline in performance is largely attributable to the sharp decline in the international coke price.

## CAPITAL EXPENDITURE

The division spent R325 million on various capital programmes, an increase of 89% on last year. Almost 90% of the total capital expenditure relates to the battery expansion project in Newcastle. The actual spending on the expansion project, at R495 million, exceeded the initial estimate by 5%, mainly due to higher than expected spending on both downstream equipment and import logistics.

Construction work commenced in April 2005 and the first coke was produced as scheduled in September 2006. Performance testing continued on schedule, and positive results were achieved at every testing phase. The battery achieved full operating capacity and was handed over in December 2006, doubling our installed market coke capacity to 890 000 tonnes a year.

## CONTINUOUS IMPROVEMENT

The coke division achieved cost savings of R41 million during 2006 through a continuous improvement programme which saw various initiatives culminate in higher throughput and significant productivity enhancements.

## SAFETY, HEALTH AND ENVIRONMENT

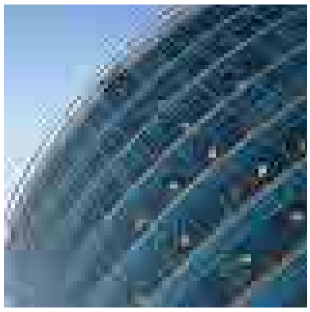
In line with Mittal Steel South Africa's commitment to providing a safe and healthy workplace for its employees, visitors, contractors and labour broker employees, the coke and chemicals operations have implemented comprehensive guidelines such as the safety, health and environment (SHE) policy. Efforts to maintain this trend are ongoing.

## THE YEAR AHEAD

An increase in operating income is expected in 2007 following the introduction of additional market coke capacity relative to the previous two years, which were characterised by capacity constraints. Domestic demand for market coke remains strong, and the additional market coke capacity will enhance the reliability of local supplies and decrease the dependence of the ferro-alloy industry on imports. Indications are that international coke prices will remain stable at price levels experienced in the second half of 2006, with modest increases expected following the introduction of export taxes on coke by the Chinese authorities. A balance in market demand and supply of coke is expected to make a positive contribution to the stability of international coke prices in the year ahead.

# Finance report

By continuously improving our operational efficiencies, we remain one of the lowest cost steel producers in the world. Over the past five years Mittal Steel South Africa has consistently out-performed the market.



CHANGE IN ACCOUNTING POLICY AND ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The group financial results have been prepared on the historical cost basis, except for the revaluation of financial instruments, and conform to International Financial Reporting Standards and Schedule 4 of the South African Companies Act, 1973, as amended. The group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to our operations and effective for accounting periods beginning on 1 January 2006.

The principal accounting policies are consistent with those applied in the previous year except for the following:

- **Adoption of IFRIC 4, Determining whether an Arrangement contains a Lease**
  All arrangements that take the form of a lease have been recognised in terms of IAS 17, Leases. The recognition of such leases requires a retrospective adjustment to financial information.

  The net carrying value of property, plant and equipment increased by R1 067 million (2005: R1 130 million), loan receivables decreased by R526 million (2005: R526 million) finance lease obligations increased by R595 million (2005: R685 million), opening retained earnings, as at 1 January 2005 decreased by R52 million and 2005 earnings decreased by R3 million.

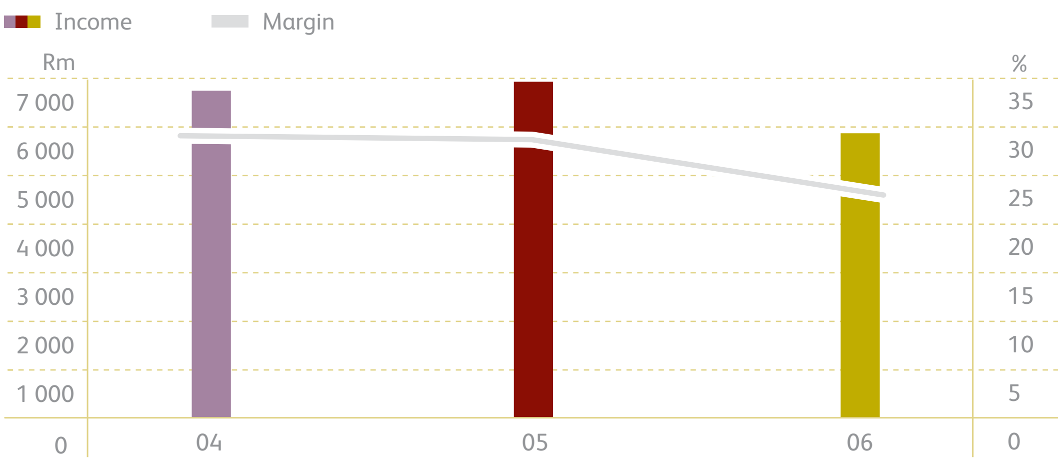
- **Accounting treatment of investment in Collect-a-Can (Proprietary) Limited**
  The group has re-assessed its accounting treatment of the investment in Collect-a-Can (Proprietary) Limited and now accounts for it as a jointly controlled entity using the equity accounting method; previously this was accounted for as a subsidiary. This treatment was retrospectively applied, resulting in a restatement to opening retained earnings of R9 million at 1 January 2005. Retained earnings for 2005 decreased by R3 million. This resulted in a decrease of net assets of R22 million (2005: R18 million).

- **Treatment of transport costs recovered from customers and settlement discount allowed**
  The treatment of these costs, where transport costs recovered from customers were deducted from revenue and settlement discount allowed was included in cost of sales, was re-assessed. Transport costs recovered from customers of R501 million are now included in revenue (2005: R374 million) and the cost paid to transport contractors is included in cost of sales. Settlement discount allowed is now deducted from revenue, R451 million (2005: R349 million) and not as previously included in cost of sales. These reclassifications have no impact on operating profits.

The prior year results have been restated in compliance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

The new standards, IFRS 7, Financial Instruments: Disclosure and IFRS 8, Operating Segments, effective for annual periods beginning on or after 1 January 2007 and 1 January 2009 respectively, have not yet been adopted. Adoption of these standards will have no impact on the financial results nor result in changes to the accounting policies of the group.

## Operating income and operating margin



## HEADLINE EARNINGS

Headline earnings for the year remained strong at R4 646 million, although 8% lower year on year (2005: R5 077 million) primarily due to a significant increase in the cost of input materials. This was partially offset by an increase in domestic sales volumes and a weaker Rand/US Dollar exchange rate.

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

| | Year ended 31 December | |
|---|---|---|
| | **2006 Rm** | 2005 Rm |
| Revenue | **25 363** | 23 984 |
| Profit from operations | **5 833** | 6 894 |
| Gains and losses on changes in foreign exchange rates and financial instruments | **480** | 246 |
| Net interest income/(finance cost) | **193** | (29) |
| Income from investments | **7** | 5 |
| Income from equity accounted investments | **195** | 294 |
| Income tax expense | **(2 062)** | (2 344) |
| **Attributable earnings** | **4 646** | 5 066 |
| Headline earnings | **4 646** | 5 077 |
| Headline earnings (USD million) | **680** | 806 |

Gains on foreign exchange rates and financial instruments amounted to R480 million compared to a gain of R246 million in the previous year. Gains on changes in foreign exchange rates contributed R413 million (2005: R166 million) following the depreciation of the Rand. The valuation of derivative instruments contributed R67 million (2005: R80 million).

Net interest income for the year was R193 million compared to a net interest expense during 2005 of R29 million. This comprises interest earned on cash balances of R362 million (2005: R188 million), partially offset by interest paid on borrowings of R14 million (2005: R21 million), interest expense on finance lease obligations (IFRIC 4, Determining whether an Arrangement Contains a Lease) of R54 million (2005: R56 million) and the impact of a change in discount rate and unwinding of the discounting effect of the present valued carrying amounts of the environmental rehabilitation provisions of R101 million (2005: R140 million).

Income from equity accounted investments mainly represents our share of the profit generated by Macsteel International Holdings B.V., responsible for international marketing and shipping operations. The sharp decline from 2005 was mainly due to lower selling prices and lower export volumes.

The effective tax rate for 2006 was 30,7% compared to 31,6% for 2005. Excluding the impact of secondary tax on companies the effective tax rate was 28,3% compared to 29,1% for 2005. The lower tax rate during 2006 is mainly due to a Strategic Industrial Project (SIP) allowance granted in terms of section 12(g) of the Income Tax Act for the construction of the coke oven batteries at Newcastle plant.

Our operating margin decreased from 29% to 23% during 2006 following lower sales prices and an increase in costs, particularly in the first half of the year. However, the operating margin for the second half of 2006 improved to 27% compared to the 18% for the first half. Return on equity declined from 29% to 22% as a result of lower profits and an increase in retained earnings.

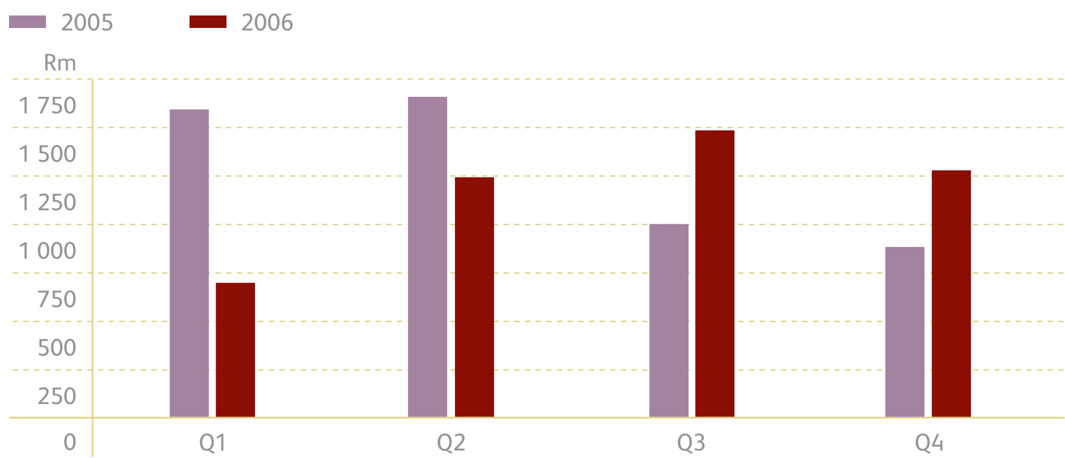
The following table and graph of comparable headline earnings demonstrates the impact of price and exchange rate movements on the stability of earnings.

| Quarter to | HRC sales price CFR USDmt | Headline earnings USDm | Headline earnings Rm | Exchange rate R/USD |
|---|---|---|---|---|
| Average 2004 | 540 | 199 | 1 265 | 6,43 |
| March 2005 | 642 | 264 | 1 578 | 5,97 |
| June 2005 | 650 | 257 | 1 643 | 6,40 |
| September 2005 | 470 | 152 | 987 | 6,50 |
| December 2005 | 477 | 133 | 869 | 6,52 |
| **Average 2005** | 560 | 202 | 1 269 | 6,35 |
| March 2006 | **448** | **112** | **684** | **6,13** |
| June 2006 | **504** | **190** | **1 228** | **6,45** |
| September 2006 | **583** | **205** | **1 470** | **7,16** |
| December 2006 | **589** | **173** | **1 264** | **7,31** |
| **Average 2006** | **531** | **170** | **1 162** | **6,76** |

Headline earnings for the second half of the year increased by 43% compared to the first half and by 47% compared to the corresponding period last year, driven by higher domestic sales volumes and an increase in international steel prices.

Headline earnings for the fourth quarter decreased by 14% compared to the third quarter mainly due to the seasonal slowdown in sales during the December 2006 holiday period.

## Headline earnings per quarter



## ATTRIBUTABLE EARNINGS

| | Year ended 31 December 2006 Rm | 2005 Rm |
|---|---|---|
| Impairment of goodwill | | (11) |
| Headline earnings | **4 646** | 5 077 |
| **Attributable earnings** | **4 646** | 5 066 |

The non-headline earnings item for 2005 comprises an impairment of goodwill.

## OPERATING PROFIT

The details per division of our operating profit are provided below:

| | Year ended 2006 Rm | Margin % | 2005 Rm | Margin % |
|---|---|---|---|---|
| Flat Steel Products | **3 550** | **20** | 4 518 | 28 |
| Long Steel Products | **2 100** | **27** | 2 109 | 29 |
| Mittal Steel Coke and Chemicals | **184** | **18** | 301 | 28 |
| Corporate and Other | **(1)** | | (34) | |
| **Net operating profit** | **5 833** | **23** | 6 894 | 29 |

Operating profit for the year declined by 15% compared to the previous year. Flat products declined by 21% and coke and chemicals by 39% while long products remained in line with the previous year. Overall the operating margin declined from 29% to 23% with the most severe decline from our flat product business which declined from 28% to 20% and our coke and chemicals business which declined from 28% to 18%. The operating margin of our long product business also declined marginally from 29% to 27%.

The main reasons for the decline in operating profit for flat products compared to a roll over for long products were a higher increase in the cost of input material at flat products, especially the price increase of zinc used in galvanised flat products and imported iron ore pellets for Saldanha, as well as production interruptions which impacted more severely on the operational stability of the flat product plants. Average selling prices compared to 2005 were also higher for long products than for flat products and the increase in domestic sales was 32% for long products compared to 24% for flat products.

The decline in operating profit for coke and chemicals business was largely due to a sharp decline in the international market coke price.

## MANAGEMENT OF EXCHANGE RATE AND BASE METAL EXPOSURES

The closing exchange rate at the end of 2006 was R6,99 to USD1,00 compared to R6,34 to USD1,00 at the end of 2005. This resulted in a foreign exchange profit on the revaluation of our US Dollar cash balances and export debtors of R413 million for the year (2005: R166 million).

The South African Rand was fairly volatile during the year and the quarterly exchange rates against the US Dollar were as follows:

| | 2006 Average | 2006 Closing | 2005 Average | 2005 Closing |
|---|---|---|---|---|
| March | 6,13 | 6,20 | 5,97 | 6,24 |
| June | 6,45 | 7,17 | 6,40 | 6,67 |
| September | 7,16 | 7,77 | 6,50 | 6,36 |
| December | 7,31 | 6,99 | 6,52 | 6,34 |
| Year | 6,76 | 6,99 | 6,35 | 6,34 |

We are exposed to both economic and transaction risks arising from the volatility in exchange rates, particularly the Rand/US Dollar, and the pricing of commodities in US Dollars. During 2006, the Rand weakened 6,5% on average against the US Dollar, while comparison of year-end closing rates shows this exchange rate weakened by 10,3%.

In Rand terms, changes in the exchange rate have a significant influence on our earnings with approximately 37% of our products being exported on average over the last three years. These exports are predominantly US Dollar driven. Our domestic sales prices are also influenced by the direction of the movements in the exchange rate as our developmental pricing model aims to put South African customers on an equal footing with customers elsewhere in the world, and as such benchmarks our prices against domestic prices from a basket of four countries, namely China, Germany, the United States and the Commonwealth of Independent States. An average is calculated based on prices in these countries and then converted to Rands using the exchange rate. About 38% of our cost structure is direct US Dollar denominated while we also hold a considerable amount of our cash balances in US Dollars.

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

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

## COST PERFORMANCE

Cost of steel sales per tonne increased by 15% compared to 2005.

Cash cost per ton of hot-rolled coil and billets increased by 10,3% and 8,8% respectively, compared to last year, driven by substantial increases in the cost of metallurgical coking coal, imported iron ore pellets, tin, nickel, aluminium, scrap and iron ore. The cost of hot-rolled coil was further negatively impacted by the production disruptions at the flat product plants.

The cost of galvanised material increased by 36% compared to last year due to the higher cost to produce hot-rolled coils and a 131% increase in the price of zinc.

Given the quantum increase in the prices of raw materials, the global cost curve has moved considerably higher. Through our high level of raw material integration, notably iron ore as well as scrap, and being self sufficient in coke supply we were to a certain extent sheltered from the significant global increase in costs.

Our strategy continues to drive cost reductions, with the aim of maintaining our position of being within the lowest cost quartile of world operators. However, during 2006 we were unable to generate any incremental cost savings mainly due to several internal and external production related incidents that impacted negatively on throughput and costs. It is however important to note that almost all the cost savings generated during 2005 were sustained during 2006.

On the positive side we had a significant improvement in labour productivity during 2006 with employees per million tonnes produced, improving by 10% to 1 291. This was achieved despite the lower liquid steel production of 3%. Revenue per head increased by 17%.

Future actions include the following projects:

- Replacement of expensive scrap with direct reduction iron (DRI);
- Reduction of fixed cost per tonne through higher production volumes;
- Improvement of operational stability;
- Improvement of various operational efficiencies e.g. yields, fuel rates, consumption rates etc; and
- The replacement of purchased gas with coke oven gas following the commissioning of the new coke oven batteries at Newcastle plant.

## DIVIDEND

A final dividend of 140 cents per share in respect of 2005 earnings was declared by the board on 13 February 2006, which resulted in a total dividend in respect of 2005 earnings of 380 cents, covered three times by headline earnings. This final dividend together with the 12,5% secondary tax thereon is recorded in the 2006 financial results.

Considering our current cash position, future capital expenditure and working capital requirements, the board has decided to distribute one third of the 2006 headline earnings, in line with the current dividend policy.

The board declared an interim dividend of 143 cents per share on 31 July 2006. The dividend was recorded in the 2006 financial statements together with the 12,5% secondary tax on companies thereon. Payment was made to shareholders on 4 September 2006.

A final dividend of 204 cents per share was declared by the board on 19 February 2007, which resulted in a total dividend in respect of 2006 earnings of 347 cents, covered three times by headline earnings. The payment of the final dividend will be made on 26 March 2007 to shareholders registered on 23 March 2007. This final dividend together with 12,5% secondary tax thereon will be recorded in the 2007 financial results.

# Finance report continued

## CASH FLOW

The cash flow is summarised below:

| | Year ended 31 December | |
|---|---|---|
| | 2006 | 2005 |
| | Rm | Rm |
| Cash profit from operations | 7 180 | 8 348 |
| Working capital | (1 033) | 59 |
| Cash generated from operations | 6 147 | 8 407 |
| Capex | (1 446) | (1 608) |
| Net interest income | 294 | 111 |
| Investment income | 174 | 43 |
| Taxation | (1 660) | (2 977) |
| Dividends | (1 261) | (2 853) |
| Realised foreign exchange movements | (57) | (72) |
| Proceeds from disposal of plant, property and equipment | 9 | 6 |
| **Net cash inflow** | 2 200 | 1 057 |
| Working capital | | |
| Increase in inventories | (890) | (817) |
| (Increase)/decrease in trade and other receivables | (347) | 752 |
| Increase in trade and other payables | 204 | 124 |
| **Net working capital movement** | (1 033) | 59 |

Net cash flow for 2006 was strong and represents an inflow of R2 200 million (2005: R1 057 million) driven by cash profits of R7,1 billion offset by an increase in working capital of R1 billion, capital expenditure of R1,4 billion, tax paid of R1,7 billion and dividends of R1,3 billion.

The increase in working capital was made up as follows:

- Increase in inventory levels of R890 million mainly due to higher slab stocks in anticipation of the Blast Furnace D reline at Vanderbijlpark plant, the arrival of a vessel with imported pellets for Saldanha plant at the end of December 2006 as well as a significant increase in input material costs.
- Debtors increased by R347 million mainly due to a higher percentage local sales with a longer collection period compared to export sales (45 days versus 12 days) as well as higher selling prices.
- This was partially offset by a net increase in creditors and provisions of R204 million mainly due to an increase in capital creditors relating to the replacement of slab casters that were damaged by fire and material purchased for Blast Furnace D reline at Vanderbijlpark plant, scheduled for February 2007.

## CAPITAL EXPENDITURE

Capital expenditure for the year was 10% below that of the previous year, details of which are given below:

| | Year ended 31 December 2006 Rm | 2005 Rm |
|---|---|---|
| Value-adding capital | **536** | 358 |
| Replacements | **806** | 900 |
| Environmental | **104** | 350 |
| **Total** | **1 446** | 1 608 |
| Depreciation charge | **1 166** | 1 192 |

Of the R1,4 billion spent on capital projects 56% went towards replacements, 37% towards new value-adding projects and 7% towards environmental projects.

Projects to the value of R1,3 billion were completed in 2006. These included:

- The commissioning of a new water treatment plant at Vanderbijlpark plant during April 2006 (R222 million);
- The commissioning of a new reverse osmosis plant at Newcastle plant during July 2006 (R44 million);
- The commissioning of a new market coke battery at Newcastle plant during August 2006 (R495 million); and
- The commissioning of a new galvanising line at Vanderbijlpark plant during December 2006 (R110 million).

Our capital investment programme for the medium term includes R1,3 billion for relines, R1,2 billion to maintain capacity, R1,5 billion to increase steelmaking capacity, R1,8 billion for downstream value-adding projects while R600 million is planned for environmental projects.

Relines are scheduled as follows:

- Blast Furnace D at Vanderbijlpark plant – started 19 February 2007;
- Blast Furnace N5 at Newcastle plant – first half of 2008; and
- Corex and Midrex at Saldanha plant – early 2008.

Production subsequent to the relines will enable improved efficiencies and higher output.

Beside the scheduled relines our expansion plans also include the following projects:

- A new galvanising line and the new shot blast and prime facility at Vanderbijlpark plant (already commissioned);
- Two mills in Mozambique, with production due to start in the near future;
- New DRI kilns at Vanderbijlpark plant; and

# Finance report continued

- Other new projects currently being evaluated include:
  - The installation of more straightening capacity at Newcastle plant;
  - Increasing bar mill capacity at Newcastle plant;
  - Additional iron making capacity; and
  - Additional downstream capacity at both flat and long facilities.

Our long-term iron ore supply strategy remains one of our top priorities and we are in continuous discussions with Kumba Iron Ore in this regard.

## FINANCIAL MANAGEMENT

Our financial facilities available at 31 December 2006 were as follows:

| | Facility Rm | Drawn Rm | Available Rm | Term Rm |
|---|---|---|---|---|
| Supplier loan | 71 | (71) | | 7 annual repayments |
| Standby facilities | | | | |
| – Working capital lines | 2 520 | | 2 520 | 12 months |
| | 2 591 | (71) | 2 520 | |
| Cash balance | | 7 750 | | |
| Net cash balance/funds available | | 7 679 | | |

We have a strong balance sheet with virtually no debt and our net cash position at the end of the year increased by R2,5 billion to R7,7 billion; due to a strong cash flow performance from the operations.

Some of the available funds are earmarked for dividends and tax payments as well as investments, in particular our expansion programmes to increase throughput and the major blast furnace relines. We plan to meet all our investment needs from internal cash resources over the next three years.

In terms of the debt/equity structure, we continue to strive to avoid any debt (except working capital funding if necessary), in order to maintain a strong balance sheet, given the cyclical nature of the steel industry and the relatively high interest rates of the local economy.

Our present policy is to hedge ourselves against capital commitments denominated in currencies other than US Dollars. US Dollar capital expenses are offset against US Dollar cash balances.

## SHARE PERFORMANCE

The average share price for the twelve months was R72,86 with a high of R99,00 during December 2006 and a low of R56,40 during January 2006. For the previous year ended December 2005 the average was R54,26, with a high of R69,30 in March and a low of R41,60 in June 2005.

Liquidity in our shares remains high with 116% of the total issued shares being traded during the twelve months (66% during the previous twelve months ended December 2005), with an average daily value of R67 million or USD10 million (during the previous twelve months, R64 million or USD10 million).

Throughout the past twelve months Mittal Steel South Africa was ranked in the JSE Securities Exchange's Top 40 Index in terms of both total market capitalisation and free float. Average market capitalisation for the twelve months was R33,2 billion (USD4,9 billion) and for the previous twelve months, R24,5 billion (USD3,9 billion). Our position in the Top 40 Index at 31 December 2006 was number 21 (at 31 December 2005: 27) for total market capitalisation and number 32 (previous twelve months, 33) for free float.

According to the Sunday Times Top 100 Companies Survey, Mittal Steel South Africa was the country's best performing company. Mittal Steel South Africa was the top performer on the JSE Limited over a five year period ended 30 September 2006, providing investors with a compound 89,6% return over five years. During 2005 Mittal Steel South Africa also took second place overall in the Top 100 Companies Survey and first place for blue chip companies.

## POST-RETIREMENT BENEFIT LIABILITIES

Our medical aid funds are structured to exclude any employer liability for post-retirement medical benefits in respect of either existing or past employees, other than specific dispensations made for early retirees in 1991 and 1993, for which an actuarially determined liability of R9 million exists that has been fully provided for.

Our retirement benefit funds comprise a number of defined contribution funds and defined benefit funds. The latter became closed funds some time ago after the conversion by most members to the defined contribution dispensation and will accordingly phase out over time. There were only 63 contributing members to the defined benefit funds on 31 December 2006. All the funds were adequately funded at the date of the latest actuarial valuations.

# Corporate governance

Committed to upholding not only the high standards of Corporate Governance laid down in the King II Report and implementing policies and practices centred on integrity, accountability and transparency, we believe the substance of good corporate governance is more important than its form.

The board of Mittal Steel South Africa endorses the standards of corporate governance contained in the King Report on Corporate Governance for South Africa 2002 (King II).

Mittal Steel South Africa complies materially with the Code of Corporate Practices and Conduct contained in King II. In addition, as a subsidiary of Arcelor Mittal, a company listed on the New York Stock Exchange and the Euronext Amsterdam, Mittal Steel South Africa keeps abreast of the corporate governance standards of these jurisdictions. The board of Mittal Steel South Africa subscribes to the view put forward by The Business Roundtable, USA, that: "Adoption of rules or principles or of any particular policy is not a substitute for, and does not itself assure good corporate governance" and believes the substance of good corporate governance is more important than its form.

## BOARD OF DIRECTORS

As recommended in King II, Mittal Steel South Africa has a unitary board structure. The board retains full control over the affairs of the company, ensuring that decisions on all material matters are handled by the board. Various board committees are in place to assist the board to discharge its responsibilities.

In line with good corporate governance practices, Mittal Steel South Africa's board has a greater number of non-executive directors than executive directors, with a strong contingent of independent directors within the non-executive group. The board is in the process of considering increasing the number of independent non-executive directors to further strengthen the independence of the board.

### Composition

The board comprises seven non-executive directors and three executive directors. Three of the non-executive directors are independent. The executive directors are the Chief Executive Officer, the Human Resources Director and the Finance Director.

## Board changes

During November 2006 Dr Khayakhulu Ngqula resigned as independent non-executive Chairman, and the board appointed Dr Khotso Mokhele to take the position of independent non-executive Chairman with effect from 1 January 2007.

Mr Harak Banthia resigned as Executive Director, Finance on 17 February 2006 and Mr Kobus Verster was appointed Executive Director, Finance with effect from the same date.

Mr Davinder Chugh resigned as Chief Executive Officer, but remains on the board as a non-executive director. Mr Rick Reato was appointed Chief Executive Officer, effective 15 September 2006.

Messrs Aditya Mittal and Sam Jonah resigned as non-executive directors on 6 September and 7 November 2006 respectively, while Mr Lakshmi Mittal resigned on 29 November 2006.

Mr Malay Mukherjee was appointed non-executive director on 6 September 2006, and Mr Michel Wurth was appointed non-executive director on 30 November 2006. Ms Thandi Orleyn was appointed non-executive director on 1 February 2007.

As at 31 December 2006, the board and its committees were constituted as follows:

**Board of directors**

*Non-executive directors*

| | |
|---|---|
| Independent | Khayakhulu Ngqula (Chairman)<br>Khotso Mokhele<br>Johnson Njeke |
| Non-independent | Malay Mukherjee<br>Michel Wurth<br>Sudhir Maheshwari<br>Davinder Chugh |
| *Executive directors* | Rick Reato (Chief Executive Officer)<br>Kobus Verster (Finance)<br>Juba Mashaba (Human Resources) |

**Audit committee**
Johnson Njeke (Chairman)
Sudhir Maheshwari
Malay Mukherjee

**Human resources and nominations committee**
Khotso Mokhele (Chairman)
Davinder Chugh

**SHE committee**
Khotso Mokhele (Chairman)

Representative of one of recognised trade unions on an annual rotation basis

Davinder Chugh

**Risk committee**
Johnson Njeke (Chairman)

# Corporate governance continued

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

- Short *curriculum vitae*, including age and date of appointment – page 12;
- Remuneration – pages 156 to 159; and
- Shareholding – pages 164 to 165.

## The board charter

The board charter outlines the responsibilities of the board as follows:

- To give strategic direction to the company;
- To appoint the Chief Executive Officer and ensure proper succession planning at senior management level;
- To retain full and effective control of the company and to monitor the implementation by management of board plans and strategies;
- To ensure compliance with relevant laws, regulations and codes of business practice;
- To define levels of materiality, reserve specific powers and delegate others with written authority;
- To identify and monitor key risk areas and key performance indicators and to accept full responsibility to ensure the integrity of the risk management process and internal controls in the company;
- To communicate with shareholders and all relevant stakeholders openly and promptly;
- To identify, monitor and report on relevant non-financial matters; and
- To establish a formal, transparent and effective process for the appointment, orientation and induction of new directors, including the ongoing development and regular performance evaluation of all board members.

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

## Meetings and related matters

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

## Board agenda

The board agenda is drawn up in consultation with the Chief Executive Officer and the Chairman, where appropriate, and includes, among others, the following items:

- Strategic plans;
- Capital expenditure;
- Budgets;
- Financial information;
- Risk management;
- Senior appointments;
- Minutes of board committees; and
- Any other matters of importance for the proper stewardship of the company by the board.

### Attendance at board meetings

| | 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 02-13 | 05-31 | 07-31 | 08-28 | 09-06 | 11-03 | 11-30 |
| HJ Verster[1] | ✓[10] | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| DK Chugh | ✓ | ✓ | ✓ | T | T | ✓ | T |
| SE Jonah[2] | ✓ | X | X | X | X | X | |
| S Maheshwari | T | X | T | X | T | X | T |
| JJA Mashaba | ✓ | ✓ | ✓ | ✓ | X | ✓ | ✓ |
| A Mittal[3] | X | X | X | X | X | | |
| LN Mittal[4] | X | T | T | X | X | X | |
| KDK Mokhele | ✓ | ✓ | ✓ | ✓ | T | ✓ | ✓ |
| K Ngqula[5] | T | ✓ | ✓ | X | ✓ | X | ✓ |
| MJN Njeke | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | X |
| EM Reato[6] | | | | | | ✓ | ✓ |
| M Mukherjee[7] | | | | | T | ✓ | T |
| M Wurth[8] | | | | | | | |
| HC Banthia[9] | T | | | | | | |

*[1]Appointed to the board on 17 February 2006 [2]Resigned from the board on 7 November 2006 [3]Resigned from the board on 6 September 2006 [4]Resigned from the board on 29 November 2006 [5]Resigned from the board on 31 December 2006 [6]Appointed to the board on 15 September 2006 [7]Appointed to the board on 6 September 2006 [8]Appointed to the board on 30 November 2006 [9]Resigned from the board on 17 February 2006 [10]Invitee ex officio*

*X Apology; T via Telephone conference facility*

## POLICIES AND PROCEDURES

### Professional advice

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

### Price-sensitive information

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

# Corporate governance continued

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

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

### Board committees
The committees listed below have been established to assist the board in fulfilling its responsibilities. The nature and scope of authority for each committee is detailed in the respective committee's terms of reference as approved by the board. The terms of reference also address issues such as *inter alia* composition and meetings. As concerns composition, the terms of reference of all the committees of the board make provision for non-board members who possess the requisite expertise, skill and knowledge, to be appointed to serve on the committees where the board, through the human resources and nominations committee, deems it appropriate. Membership of the various committees is indicated in the structure on page 51.

### Board of directors
Audit committee
- Financial control
- Compliance
- Regulatory environment
- Risk management

Human resources and nominations committee
- Human resources
- Nominations
- Share scheme

Safety, health and environment committee
- Safety
- Health
- Environment
- Compliance
- Certification

Risk committee
The primary purpose of the committee is to assist the board in fulfilling its corporate governance and oversight responsibilities by establishing, monitoring and reviewing internal control and risk management framework.

## Audit committee

The committee meets at least four times a year and is primarily responsible for assisting the board in carrying out its duties relating to accounting policies and procedures, internal controls, financial reporting practices, the relationship with the external auditors and internal audit function and the identification and monitoring of significant risks. The committee has, for the year under review, performed its duties and responsibilities in line with its formal terms of reference.

The Executive Director, Finance, senior audit partners representing the external auditors, internal audit manager and senior members of the finance department attend every meeting of the committee by invitation.

The external and internal auditors have unrestricted access to the Chairman of the committee, as well as the Chairman of the board and each and every non-executive director on the board. The Chairman of the audit committee meets with the manager of internal audit prior to every committee meeting to discuss the various reports to be tabled by internal audit and to identify areas of concern, if any. Similar meetings are held with senior external audit partners.

The committee is chaired by Johnson Njeke and there are two additional members, Sudhir Maheshwari and Malay Mukherjee. Sudhir Maheshwari is responsible for finance and mergers and acquisitions at Arcelor Mittal. Malay Mukherjee is a member of the Arcelor Mittal Group Management board and was appointed to the board on 6 September 2006. He replaces Dr Sam Jonah on the audit committee.

## Attendance at meetings of the audit committee

| | 2006 | | | |
|---|---|---|---|---|
| | 02-13 | 05-31 | 07-31 | 11-03 |
| MJN Njeke | ✓ | ✓ | ✓ | ✓ |
| S Maheshwari | T | T | T | T |
| SE Jonah[1] | ✓ | X | X | X |
| M Mukherjee[2] | | | | T |
| DK Chugh (invitee *ex officio*)[3] | ✓ | ✓ | ✓ | |
| EM Reato (invitee *ex officio*) | | | ✓ | ✓ |
| HJ Verster (invitee *ex officio*) | | ✓ | ✓ | ✓ |
| HC Banthia (invitee *ex officio*)[4] | T | | | |

*[1]Resigned from the committee on 6 September 2006 [2]Appointed to the committee on 6 September 2006 [3]Resigned as CEO on 5 September 2006 [4]Resigned as executive director on 17 February 2006*

*X Apology; T Via telephone conference facility*

## Human resources and nominations committee

The committee is primarily responsible for assisting the board on human resources and remuneration policies, succession planning and the appointment as well as terms and conditions of service of the executive directors, and other members of senior management. The terms of reference of the committee also include responsibility for assisting the board with nominations for the appointment of non-executive directors.

### Approach to remuneration

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

### Non-executive directors

Non-executive directors receive an annual fee and in addition, are paid a fee for attending and contributing to board meetings. The chairman receives a fixed annual fee that is inclusive of all board and board committee attendances.

Mittal Steel South Africa reimburses non-executive directors for all travelling and accommodation expenses in respect of board and board committee meetings in accordance with company policy.

### Executive directors

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

### Attendance at meetings of the human resources and nominations committee

| | 2006 | | | | |
|---|---|---|---|---|---|
| | 02-01 | 06-23 | 10-10 | 11-10 | 11-29 |
| KDK Mokhele | T | ✓ | ✓ | ✓ | ✓ |
| SE Jonah[1] | T | T | X | | |
| JJA Mashaba | ✓ | ✓ | ✓ | ✓ | ✓ |
| A Mittal[2] | X | X | | | |
| DK Chugh[3] | ✓[4] | T[4] | | T | T |
| EM Reato (invitee *ex officio*) | | | ✓ | ✓ | ✓ |

*[1]Resigned from the committee on 11 September 2006* *[2]Resigned from the committee on 6 September 2006*
*[3]Appointed to the committee on 14 September 2006* *[4]Invitee ex officio*

*T Via telephone conference facility X Apology*

### Safety, health and environment (SHE) committee

The committee assists the board with discharging its critical responsibility of ensuring the sound management of safety, health and environmental matters. The committee comprises four members, one of whom is a representative of one of the recognised unions. The union representation rotates on an annual basis among the three recognised unions.

At least two meetings are scheduled annually and ad hoc meetings are held as and when required. In the past year, the committee held four meetings. The meetings are held at the various sites, on a rotational basis, and are preceded by plant visits. The General Managers of the respective sites as well as other senior managers are invited to attend the SHE committee meetings to ensure sharing of experiences and ideas. Regular presentations are made to the committee where management is required to report on performance and to highlight all incidents relating to safety, health and environment, and to propose actions to be taken to improve performance and/or to prevent recurrences of reported incidents.

### Attendance at meeting of the SHE committee

| | 2006 | | |
|---|---|---|---|
| | 03-17 | 07-28 | 09-11 |
| KDK Mokhele | ✓ | ✓ | ✓ |
| DK Chugh[1] | ✓ | T | X |
| JJA Mashaba | X | ✓ | ✓ |
| MS Maake (representative) | ✓ | ✓ | ✓ |
| EM Reato (invitee *ex officio*) | ✓ | ✓ | ✓ |

*[1]Appointed to the committee on 14 September 2006*

*X Apology; T via telephone conference facility*

### Risk committee

The Risk Committee, a management committee reporting to the Board, assists the Board in fulfilling its corporate governance and oversight responsibilities by establishing, monitoring and reviewing Mittal Steel South Africa's internal control and risk management framework.

The Risk Management Committee is authorised by the Board to investigate any activities within its terms of reference; to seek outside legal or other independent professional advice; to secure the attendance of experts to assist the Committee and to seek any information it requires to effectively fulfil its function. Committee members are required to have a working familiarity with finance and accounting practices and the general principles of Risk Management.

The committee was formed last year and chaired by Johnson Njeke. In order to maintain transparency, the Chair of the Committee (or a person nominated by the Chairman of the Committee for that purpose) must report on all matters relevant to the Committee's duties and responsibilities to the Board on the Committee's proceedings following each meeting.

### Additional committees

#### Executive committee

The committee is chaired by the Chief Executive Officer and comprises the executive directors of the company and members of the senior management team. It meets formally on a monthly basis.

The executive committee and its members are individually mandated, empowered and held accountable for implementing the strategies and key policies determined by the board; managing and monitoring the business and affairs of the organisation in accordance with approved business plans and budgets; prioritising the allocation of capital and other resources; ensuring compliance to laws and adherence to good governance principles and establishing best management and operating practices.

#### Capital review committee

The Chief Executive Officer chairs the committee and its membership consists of the Executive Director, Finance and other senior managers. The committee meets formally on a monthly basis.

The committee is responsible for reviewing all requests for capital expenditure involving amounts exceeding R10 million and for monitoring the effective functioning of the capital expenditure management process, including the post-implementation review system.

# Corporate governance continued

### ANNUAL FINANCIAL STATEMENTS

The board acknowledges its responsibility for ensuring the preparation of the annual financial statements in accordance with International Financial Reporting Standards (IFRS) and the responsibility of the external auditors to report on these financial statements. The board is responsible for ensuring the maintenance of adequate accounting records and effective systems of internal control. During the year under review, nothing has come to the board's attention to indicate that any breakdown in the functioning of the internal controls and systems has occurred, which could have a material impact on the business. The annual financial statements are prepared from the accounting records on the basis of the consistent use of appropriate accounting policies supported by reasonable and prudent judgements and estimates that fairly present the state of affairs of the company.

The financial statements have been prepared on a going concern basis and there is no reason to believe that the company will not continue as a going concern in the next financial year.

Mittal Steel South Africa places strong emphasis on achieving the highest levels of financial management, accounting and reporting to stakeholders. Our accounting policies and practices also conform to IFRS.

As a subsidiary of Arcelor Mittal Holdings, which is listed on the New York Stock Exchange, we were expected to comply with certain requirements of Sarbanes-Oxley Act [SOX] Section 404 by the end of 2006 for group reporting purpose. SOX Section 404 covers adequacy of internal controls over financial reporting and requires certification by management and the external auditors. SOX implementation is a major process, which required extensive documentation of internal controls of all business processes and testing of the same by management. Mittal Steel South Africa has complied with abovementioned requirements of Section 404 as at the end of 2006. This will over time result in a significant strengthening of the corporate governance standards in financial reporting, under both IFRS and US GAAP.

### SUSTAINABLE DEVELOPMENT

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

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

Mittal Steel South Africa is an active member of the International Iron and Steel Institute (IISI) and contributes to and supports its policies and initiatives on sustainable development.

Specific initiatives aimed at achieving our objectives in regard to sustainable development were undertaken during the year under review and are covered extensively within the separate sustainability report. These include:

- Social responsibility;
- Safety, health and environmental management, policies and practices;

- Employee issues such as employment equity, the potential impact of HIV/Aids on our activities and the development of human capital;
- Initiatives to support black economic empowerment; and
- The identification and management of risk.

### INTERNAL AUDIT

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

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

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

### CODE OF ETHICS

The Code of Business Conduct aims to engender a culture of adherence to the highest ethical standards by all our stakeholders, including our shareholders, customers, suppliers, employees, communities where we do business, government, etc. The code covers various aspects, including:

- Compliance with laws;
- Gifts to government officials;
- Trading in the company's securities;
- Conflicts of interest;
- Customer relations;
- Supplier relations;
- Confidentiality of company information;
- Proper use and protection of company assets;
- Discrimination and harassment;
- Occupational health and safety; and
- Respect for the environment.

During the year under review a comprehensive programme to train employees at all levels on the code was undertaken.  Employees have access to the company secretary's advice and guidance should they have questions relating to the code. There is a hotline in place to enable anonymous reporting of unethical behaviour, and employees are encouraged to use it where they may have concerns or suspect unethical behaviour.

# Supplementary information

DEFINITIONS

### Attributable cash flow per ordinary share

Cash flow from operating activities after adjusting for minority participation therein divided by the weighted average number of ordinary shares in issue during the year.

### Cash and cash equivalents

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

### Cash realisation rate

Percentage of the potential cash earnings realised and is derived by attributable cash flow per ordinary share as a percentage of cash equivalent earnings per ordinary share.

### Current ratio

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

### Dividend cover

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

### Dividend yield

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

### Earnings per ordinary share

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

- Cash equivalent basis
  Earnings attributable to ordinary shareholders adjusted for non-cash items in attributable earnings and excluding equity accounted retained earnings divided by the weighted average number of ordinary shares in issue during the year.

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

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

### Financial cost cover
Net operating profit divided by net financing costs.

### Financial gearing (debt-equity ratio)
Interest-bearing debt less cash and cash equivalents as percentage of total shareholders' equity.

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

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

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

### Net asset turn
Revenue divided by closing net assets.

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

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

### Operating margin
Net operating profit as a percentage of revenue.

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

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

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

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

# Supplementary information continued

### Return on net assets

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

### Revenue per employee

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

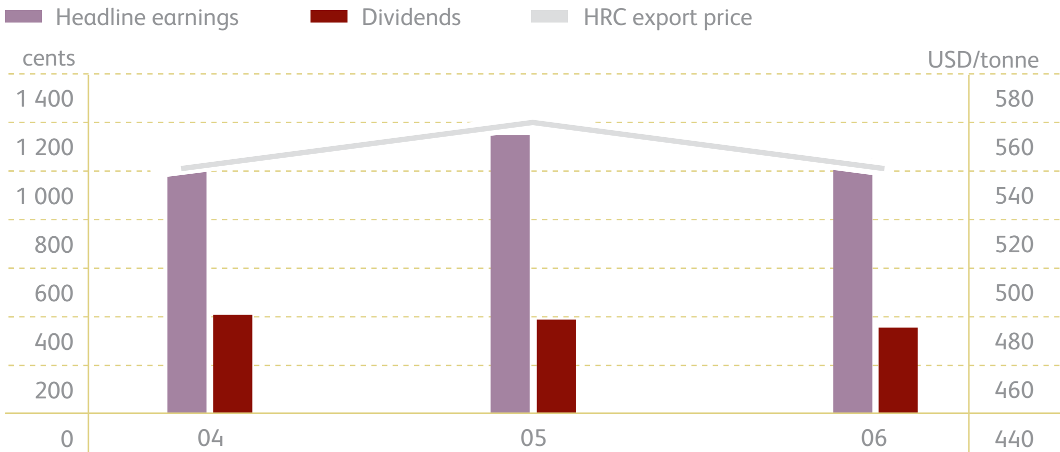
### Weighted average number of shares in issue

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

### Weighted average price paid per share traded

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

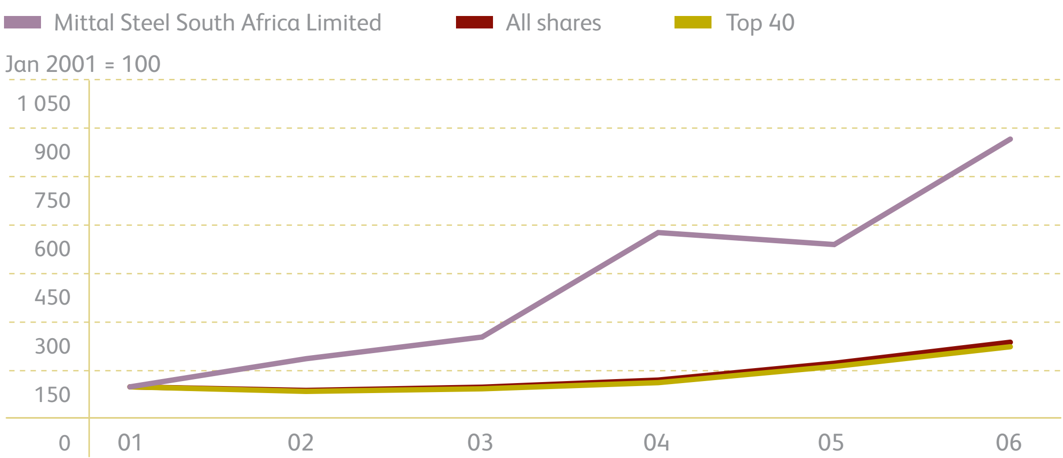
### Headline earnings per share, dividends per share and HRC export prices



# JSE Limited Statistics

| | | Year ended 31 Dec | | 6 months ended 31 Dec | Year ended 30 Jun | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 | 2004 | 2003 | 2003 | 2002 |
| Number of ordinary shares traded (m) | **248** | 294 | 298 | 160 | 353 | 659 |
| Number of transactions ('000) | **90** | 87 | 50 | 20 | 43 | 56 |
| Value of ordinary shares traded (Rm) | **18 069** | 15 953 | 11 518 | 3 377 | 7 240 | 7 730 |
| % of issued shares traded | **56** | 66 | 67 | 36 | 79 | 148 |
| Year-end market price/headline earnings ratio (times) – Annualised | **9,4** | 5,4 | 6,4 | 13,8 | 2,9 | 15,8 |
| Headline earnings yield at year end (%) – Annualised | **10,6** | 18,6 | 15,6 | 14,4 | 34,8 | 6,3 |
| Dividend yield at year-end (%) – Annualised | **3,5** | 6,2 | 6,1 | 5,2 | 12,5 | 1,8 |
| Market price per ordinary share (cents) | | | | | | |
| – Year-end | **9 825** | 6 125 | 6 550 | 2 880 | 1 600 | 2 200 |
| – Highest | **9 900** | 6 930 | 6 850 | 2 901 | 2 530 | 3 450 |
| – Lowest | **5 640** | 4 160 | 2 650 | 1 545 | 1 440 | 440 |
| – Weighted average price per share trade | **7 286** | 5 426 | 3 865 | 2 111 | 2 051 | 1 173 |
| Year-end market price/net equity per ordinary share (times) | **1,91** | 1,40 | 1,84 | 0,99 | 0,56 | 0,88 |
| Market capitalisation at year-end (Rm) | **43 795** | 27 302 | 29 197 | 12 838 | 7 132 | 9 807 |
| Mittal Steel South Africa share price index (base: 2001=0) | **339** | 211 | 226 | 99 | 55 | 73 |
| JSE Actuaries index – Industrial (base 2001=0) | **246** | 179 | 135 | 95 | 72 | 99 |

## Share performance (Indexed)



# Supplementary information continued

## Selected Group Financial Data Translated into US Dollars and Euros

for the year ended 31 December 2006

| | 2006 USD million | 2005 USD million | 2006 Euro million | 2005 Euro million |
|---|---|---|---|---|
| INCOME STATEMENTS | | | | |
| **Revenue** | **3 752** | 3 777 | **2 973** | 3 040 |
| Operating expenses | **(2 889)** | (2 691) | **(2 290)** | (2 166) |
| **Profit from operations** | **863** | 1 086 | **684** | 874 |
| Gains and losses on change in foreign exchange rates and financial instruments | **71** | 39 | **56** | 31 |
| Net interest income/(finance cost) | **29** | (5) | **23** | (4) |
| Income from investments | **1** | 1 | **1** | 1 |
| Net profit from equity accounted investments before taxation | **29** | 46 | **23** | 37 |
| **Profit before tax** | **992** | 1 167 | **786** | 939 |
| Income tax expense | **(305)** | (369) | **(242)** | (297) |
| **Profit for the year** | **687** | 798 | **545** | 642 |
| Attributable earnings per share (cents) | **154** | 179 | **122** | 144 |
| Headline earnings per share (cents) | **154** | 179 | **122** | 144 |

# Selected Group Financial Data Translated into US Dollars and Euros continued

for the year ended 31 December 2006

| | 2006 USD million | 2005 USD million | 2006 Euro million | 2005 Euro million |
|---|---|---|---|---|
| BALANCE SHEETS | | | | |
| **Assets** | | | | |
| **Non-current assets** | **2 242** | 2 416 | **1 706** | 2 037 |
| Property, plant and equipment | **2 078** | 2 249 | **1 581** | 1 896 |
| Intangible assets | **8** | 12 | **6** | 10 |
| Investments in joint ventures – unlisted | **136** | 144 | **104** | 121 |
| Non-current financial assets | **19** | 10 | **15** | 8 |
| Non-current loans receivables | **1** | 2 | | 1 |
| **Current assets** | **2 135** | 1 738 | **1 624** | 1 465 |
| Assets classified as held for sale | **1** | | **1** | |
| Inventories | **683** | 616 | **520** | 520 |
| Trade and other receivables | **299** | 273 | **227** | 230 |
| Taxation | **26** | 18 | **19** | 15 |
| Current financial assets | **18** | 7 | **14** | 6 |
| Cash and cash equivalents | **1 109** | 823 | **843** | 694 |
| **Total assets** | **4 378** | 4 154 | **3 330** | 3 502 |
| **Equity and liabilities** | | | | |
| **Shareholders' equity** | **3 282** | 3 068 | **2 497** | 2 587 |
| Stated capital | **664** | 664 | **734** | 734 |
| Non-distributable reserves | **348** | 440 | **36** | 197 |
| Retained income | **2 270** | 1 964 | **1 727** | 1 656 |
| **Non-current liabilities** | **607** | 625 | **462** | 527 |
| Interest-bearing borrowings | **9** | 11 | **7** | 9 |
| Non-current finance lease obligations | **72** | 94 | **55** | 79 |
| Deferred income tax liability | **337** | 317 | **256** | 267 |
| Non-current provisions | **190** | 203 | **144** | 171 |
| **Current liabilities** | **488** | 461 | **371** | 389 |
| Trade and other payables | **435** | 416 | **331** | 351 |
| Interest-bearing borrowings | **1** | 2 | **1** | 1 |
| Current finance lease obligations | **13** | 14 | **10** | 12 |
| Current provisions | **38** | 30 | **29** | 25 |
| **Total equity and liabilities** | **4 378** | 4 154 | **3 330** | 3 502 |

# Supplementary information continued

## Selected Group Financial Data Translated into US Dollars and Euros continued

for the year ended 31 December 2006

| | 2006 USD million | 2005 USD million | 2006 Euro million | 2005 Euro million |
|---|---|---|---|---|
| CONDENSED CASH FLOW STATEMENT | | | | |
| Cash inflows from operating activities | 512 | 412 | 406 | 332 |
| Cash outflows from investing activities | (187) | (246) | (148) | (198) |
| Net cash flow | 325 | 166 | 258 | 134 |
| Cash outflows from financing activities | (13) | (15) | (10) | (12) |
| Increase in cash and cash equivalents | 312 | 152 | 248 | 122 |
| Effect of changes in foreign exchange rates | (27) | (55) | (99) | 41 |
| Cash and cash equivalents at beginning of year | 823 | 726 | 694 | 531 |
| **Cash and cash equivalents at end of year** | **1 109** | 823 | **843** | 694 |
| The group statements on these pages have been expressed in USD and Euro for information purposes. The average R/USD and R/Euro rate for the year has been used to translate the income and cash flow statements, while the balance sheet has been translated at the closing rate at the last day of the reporting period. | | | | |
| R=USD at year-end | 6,99 | 6,34 | | |
| R=USD average for year | 6,76 | 6,35 | | |
| R=Euro at year-end | | | 9,19 | 7,52 |
| R=Euro average for year | | | 8,53 | 7,89 |

# Group annual financial statements 2006

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

for the year ended 31 December 2006

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

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

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

The directors have reviewed the group's financial budgets for the year to 31 December 2007 and in the light of the current financial position and existing borrowing facilities, they considered it appropriate that the financial statements be prepared on the going-concern basis.

The external auditors have audited the financial statements of the group and company and their unmodified report appears on page 69.

Against this background the directors of the company accept responsibility for the financial statements for the year ended 31 December 2006, which were approved by the board of directors on 19 February 2007 and are signed on their behalf by:

**EM Reato**
Chief Executive Officer

19 February 2007

**HJ Verster**
Executive Director, Finance

19 February 2007

# Certificate by Company Secretary

In my capacity as the company secretary, I hereby confirm, in terms of the South African Companies Act, 1973 as amended, that for the year ended 31 December 2006, Mittal Steel South Africa Limited has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act and that all such returns are true, correct and up to date.

**Xoliswa Motswai**
Company Secretary

19 February 2007

# Report of the independent auditors

**To the shareholders of Mittal Steel South Africa Limited**

We have audited the annual financial statements and group annual financial statements of Mittal Steel South Africa Limited, which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 31 December 2006, the income statement and the consolidated income statement, the statement of recognised income and expense and the consolidated statement of recognised income and expense and cash flow statement and the consolidated cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 70 to 169.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

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

## OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group as at 31 December 2006, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Deloitte & Touche

**Deloitte & Touche**
Per PJ Smit, Partner

19 February 2007


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

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


National Executive; GG Gelink, Chief Executive; AE Swiegers, Chief Operating Officer; GM Pinnock, Audit; DL Kennedy, Tax; L Geeringh, Consulting; MG Crisp, Financial Advisory; L Bam, Strategy; CR Beukman, Finance; TJ Brown, Clients and Markets; SJC Sibisi, Public Sector and Corporate Social Responsibility; NT Mtoba, Chairman of the Board; J Rhynes, Deputy Chairman of the Board.

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

# Directors' report

for the year ended 31 December 2006

The directors have pleasure in presenting their report for the year ended 31 December 2006.

## NATURE OF BUSINESS

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

## FINANCIAL RESULTS AND ACTIVITIES

| Earnings | Year ended 2006 | Year ended 2005 |
|---|---|---|
| Basic earnings (Rm) | **4 646** | 5 066 |
| Headline earnings (Rm) | **4 646** | 5 077 |
| Basic earnings per share (cents) | **1 042** | 1 137 |
| Headline earnings per share (cents) | **1 042** | 1 139 |
| Net asset value (Rm) | **22 943** | 19 451 |
| Net asset value per share (cents) | **5 147** | 4 364 |

Detailed reports on the activities and performance of the group and the various divisions of the group are contained in the report on pages 26 to 37.

## ACCOUNTING POLICIES

The group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006.

The impact of these accounting policies had no material effect on the results of the group, apart from IFRIC 4, Determining whether an Arrangement contains a Lease, the impact of which is described in note 2.1.5 to the financial statements on page 80.

As part of the adoption of new and revised standards and interpretations, improvements were also made to measurement, recognition and presentation methodologies. As a result the revenue recognition policy was amended to disclose transport cost recovered from customers as part of revenue with the associated cost of such transport included within cost of sales. Settlement discount allowed to customers was also offset against revenue as required by IAS 18, Revenue and clarified within Circular CC 09/06, Transactions giving rise to adjustment to revenue/purchases, as issued by the South African Institute of Chartered Accountants. The impact of these changes is described in note 2.1.5 to the financial statements on page 80.

The treatment of Collect-a-Can (Proprietary) Limited as a subsidiary was reassessed and it was determined that the group's investment rather represents that of a joint controlled entity and is therefore equity accounted in terms of the group's accounting policy applicable to interests in joint ventures. The impact of these changes is described in note 2.1.5 to the financial statements on page 80.

The following revised Standards and Interpretations have been adopted, however their adoption has not resulted in changes to the group's accounting policies:

- IAS 1, Presentation of Financial Statements – Capital Disclosures;
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies;
- IFRIC 8, Scope of IFRIC 2;
- IFRIC 9, Reassessment of Embedded Derivatives;

- IFRIC 10, Interim Financial Reporting and Impairment (1);
- IFRIC 11, Interim Financial Reporting and Impairment (2); and
- IFRIC 12, Service Concession Arrangements.

The new standards, IFRS 7, Financial Instruments: Disclosure and IFRS 8, Operating Segments, effective for annual periods beginning on or after 1 January 2007 and 1 January 2009 respectively, have not yet been adopted. Adoption of these standards will have no impact on the group's financial position or results.

## DIVIDENDS

A final dividend of 140 cents per share for the financial year ended 31 December 2005 was declared on 13 February 2006 and paid to shareholders on 20 March 2006.

The board declared an interim dividend of 143 cents per share on 31 July 2006 payable on 4 September 2006.

The board declared a final dividend of 204 cents per share for the financial year ended 31 December 2006, payable to shareholders registered at close of business on 23 March 2007. Dividends will be paid on or about 26 March 2007. The secondary tax on companies (STC) effect on the final dividend declared amounts to R114 million.

## PROPERTY, PLANT AND EQUIPMENT

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

Capital expenditure for the year amounted to R1 446 million (December 2005: R1 608 million). Details are contained in the divisional reports.

The estimated R2 558 million capital expenditure envisaged to be spent during the 2007 financial year will be funded from internal resources.

## INSURANCE

In accordance with the Enterprise Risk Management Policy adopted by the group, all insurable exposures were covered. Insurance cover was obtained in both the local and offshore markets through the group captive insurers. The largest exposure to the group is the potential material damage or business interruption losses from damage to the group assets. The insurance premium for the year amounted to R89 million, of which R70 million was for cover on assets valued at R94 000 million.

## SHAREHOLDERS' RESOLUTIONS

At the eighteenth annual general meeting of shareholders, held on 31 May 2006, the following resolutions were passed:

- **Ordinary resolution**

  To authorise the directors to allot and issue from time to time out of the unissued ordinary shares in the authorised capital of the company not more than 10% of the total issued ordinary shares of the company in accordance with and for the purpose of the Mittal Steel South Africa management share scheme.

- **Special resolution**

  That in terms of the authority granted in the articles of association of the company and/or any subsidiary of the company, the company and/or its subsidiaries be and are hereby authorised, by way of a general approval, to acquire the company's own ordinary shares (shares) on the JSE Limited open market, upon such terms and conditions and in such amounts as the directors of the company (and, in the case of an acquisition by a subsidiary(ies), the directors of the subsidiary(ies)), may from time to time decide but subject to the provisions of the Act and the JSE Listings Requirements of any other stock exchange upon which the shares of the company may be quoted or listed.

## STATED CAPITAL

### Authorised

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

### Issued

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

## SHAREHOLDERS

The issued shares of the company are widely held by the public. An analysis of shareholders and shareholdings appears on page 170. Mittal Steel Holdings AG, as controlling shareholder, has a shareholding of 52,02%.

## INVESTMENTS IN JOINT VENTURES AND SUBSIDIARIES

One of the company's subsidiaries, Dunswart Iron and Steel Works Limited was deregistered during the year.

On 21 December 2006, 100% of the ordinary shares in Ferrosure Isle of Man were sold to Mittal Steel Holdings AG for a consideration of R4 million in exchange for non-voting redeemable preference shares. This interest is consolidated as a controlled special purpose entity in terms of SIC12, Special Purpose Entities.

The financial information in respect of interests in joint ventures and subsidiaries of the company is disclosed in notes 17 and 18 and Annexure 1 and 2 to the financial statements.

## BORROWING POWERS

The borrowing powers of the company are limited to total equity (Refer note 33, page 143).

## DIRECTORATE AND SHAREHOLDINGS

The names of the directors in office and serving on the various committees of the board at the date of this report are set out on page 12.

The following changes occurred to the board:

### Resignations

- DK Chugh resigned as Chief Executive Officer with effect from 14 September 2006 and was appointed as non-executive director on the same day.
- A Mittal resigned with effect from 6 September 2006.
- SE Jonah resigned with effect from 7 November 2006.
- LN Mittal resigned with effect from 29 November 2006.
- K Ngqula resigned with effect from 31 December 2006.

### Appointments

- EM Reato was appointed as Chief Executive Officer on 15 September 2006.
- M Mukherjee was appointed as non-executive director from 6 September 2006.
- MAL Wurth was appointed as non-executive director from 30 November 2006.
- ND Orleyn was appointed as independent non-executive director effective 1 February 2007.
- HJ Verster was appointed as executive director finance from 17 February 2006.
- Dr KDK Mokhele was appointed Chairman with effect from 1 January 2007.

Both executive and non-executive directors are subject to retirement by rotation. The newly appointed Chief Executive Officer, EM Reato, will retire by rotation at the forthcoming general meeting of shareholders and being eligible for re-election, has offered himself for re-election.

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

- DK Chugh
- M Mukherjee
- MAL Wurth
- ND Orleyn

The details of the direct and indirect interests of directors in the shares of the company are set out in note 39 to the financial statements.

## SUBSEQUENT EVENTS

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

## AUDITORS

The independent auditors of the company, Deloitte & Touche, will continue in office in accordance with section 270(2) of the Companies Act, 1973.

## SECRETARY

The secretary of the company is X Motswai. Her business and postal addresses appear on the inside back cover.

# Group and company income statements

for the year ended 31 December 2006

| | Notes | GROUP 2006 Rm | GROUP 2005 Rm | COMPANY 2006 Rm | COMPANY 2005 Rm |
|---|---|---|---|---|---|
| **Revenue** | 6 | **25 363** | 23 984 | **22 574** | 20 952 |
| Raw materials and consumables used | | **(11 071)** | (8 325) | **(10 936)** | (7 451) |
| Employee costs | 7 | **(2 243)** | (2 104) | **(2 243)** | (2 104) |
| Energy | | **(1 332)** | (1 232) | **(1 043)** | (980) |
| Movement in inventories of finished goods and work in progress | | **623** | (24) | **943** | (51) |
| Goodwill impairment | 11 | | (11) | | |
| Depreciation | 7 | **(1 150)** | (1 152) | **(758)** | (756) |
| Amortisation of intangible assets | 7 | **(16)** | (40) | **(14)** | (38) |
| Other operating expenses | | **(4 341)** | (4 202) | **(3 720)** | (3 553) |
| **Profit from operations** | 7 | **5 833** | 6 894 | **4 803** | 6 019 |
| Gains and losses on changes in foreign exchange rates and financial instruments | 8 | **480** | 246 | **429** | 202 |
| Net interest income/(finance costs) | 9 | **193** | (29) | **203** | 10 |
| Interest income | | **362** | 188 | **331** | 184 |
| Finance costs | | **(169)** | (217) | **(128)** | (174) |
| Income from investments | 10 | **7** | 5 | **182** | 14 |
| Income from equity accounted investments | 17 | **195** | 294 | | |
| **Profit before taxation** | | **6 708** | 7 410 | **5 617** | 6 245 |
| Income tax expense | 12 | **(2 062)** | (2 344) | **(1 681)** | (2 104) |
| **Profit for the year** | | **4 646** | 5 066 | **3 936** | 4 141 |
| **Attributable to:** | | | | | |
| Equity holders of the company | | **4 646** | 5 066 | | |
| **Attributable earnings per share (cents)** | 13 | | | | |
| – Basic | | **1 042** | 1 137 | | |
| – Diluted | | **1 041** | 1 134 | | |
| **Dividend per share (cents)** | 14 | | | | |
| – Interim | | **143** | 240 | | |
| – Final (declared after balance sheet date) | | **204** | 140 | | |

MITTAL

# Group and company balance sheets

as at 31 December 2006

| | Notes | GROUP 2006 Rm | GROUP 2005 Rm | COMPANY 2006 Rm | COMPANY 2005 Rm |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 15 | **14 526** | 14 260 | **8 613** | 8 041 |
| Intangible assets | 16 | **58** | 74 | **32** | 46 |
| Investments in joint ventures – unlisted | 17 | **953** | 912 | **32** | 32 |
| Investments in subsidiaries | 18 | | | **3 597** | 4 882 |
| Non-current financial assets | 19 | **134** | 61 | **134** | 61 |
| Non-current loan receivables | 20 | **4** | 10 | **107** | 69 |
| Total non-current assets | | **15 675** | 15 317 | **12 515** | 13 131 |
| **Current assets** | | | | | |
| Assets classified as held for sale | 21 | **6** | | **6** | |
| Inventories | 22 | **4 775** | 3 907 | **4 383** | 3 568 |
| Trade and other receivables | 23 | **2 088** | 1 732 | **1 826** | 1 601 |
| Taxation | 32.3 | **179** | 116 | **234** | 136 |
| Current financial assets | 24 | **128** | 46 | **128** | 46 |
| Cash and cash equivalents | | **7 750** | 5 219 | **7 367** | 4 513 |
| Total current assets | | **14 926** | 11 020 | **13 944** | 9 864 |
| **Total assets** | | **30 601** | 26 337 | **26 459** | 22 995 |
| EQUITY AND LIABILITIES | | | | | |
| **Capital and reserves** | | | | | |
| Stated capital | 25 | **6 389** | 6 389 | **6 389** | 6 389 |
| Non-distributable reserves | 26 | **684** | 609 | **80** | 45 |
| Retained income | 26 | **15 870** | 12 453 | **14 237** | 11 562 |
| Total shareholders' equity | | **22 943** | 19 451 | **20 706** | 17 996 |
| **Non-current liabilities** | | | | | |
| Interest-bearing borrowings | 27 | **61** | 71 | | |
| Non-current finance lease obligations | 28 | **502** | 596 | **337** | 423 |
| Non-current provisions | 29 | **1 327** | 1 288 | **1 318** | 1 278 |
| Deferred income tax liability | 30 | **2 355** | 2 007 | **1 218** | 1 136 |
| Total non-current liabilities | | **4 245** | 3 962 | **2 873** | 2 837 |
| **Current liabilities** | | | | | |
| Trade and other payables | 31 | **3 041** | 2 637 | **2 525** | 1 892 |
| Interest-bearing borrowings | 27 | **10** | 10 | | |
| Current finance lease obligations | 28 | **93** | 89 | **86** | 82 |
| Current provisions | 29 | **269** | 188 | **269** | 188 |
| Total current liabilities | | **3 413** | 2 924 | **2 880** | 2 162 |
| **Total equity and liabilities** | | **30 601** | 26 337 | **26 459** | 22 995 |

# Group and company cash flow statements

for the year ended 31 December 2006

| | Notes | GROUP 2006 Rm | GROUP 2005 Rm | COMPANY 2006 Rm | COMPANY 2005 Rm |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from operations | 32 | **6 147** | 8 407 | **5 123** | 6 563 |
| Interest income | | **362** | 188 | **331** | 184 |
| Finance cost | | **(68)** | (77) | **(27)** | (35) |
| Dividends paid | 32 | **(1 261)** | (2 853) | **(1 261)** | (2 853) |
| Income tax paid | 32 | **(1 660)** | (2 977) | **(1 637)** | (2 936) |
| Realised foreign exchange movements | | **(57)** | (72) | **(41)** | (45) |
| | | **3 463** | 2 616 | **2 488** | 878 |
| **Cash flows from investing activities** | | | | | |
| Investment to maintain operations | 32 | **(910)** | (1 250) | **(827)** | (1 135) |
| Investment to expand operations | 32 | **(536)** | (358) | **(525)** | (327) |
| Proceeds from disposal of property, plant and equipment | | **9** | 6 | **2** | 6 |
| Investment in other non-current assets | | | | **75** | (2) |
| Dividend from equity accounted investments | | **167** | 38 | | |
| Income from investments – dividends | | | | **175** | 9 |
| Income from investments – interest | | **7** | 5 | **7** | 5 |
| | | **(1 263)** | (1 559) | **(1 093)** | (1 444) |
| **Net cash inflow (outflow)** | | **2 200** | 1 057 | **1 395** | (566) |
| **Cash flows from financing activities** | | | | | |
| Interest-bearing borrowings repaid | | **(10)** | (10) | | |
| Finance lease obligation repaid | | **(55)** | (48) | **(43)** | (65) |
| Decrease in loans to subsidiaries | | | | **1 210** | 1 207 |
| Increase in loans to Management Share Trust and other | | **(24)** | (35) | **(38)** | (19) |
| | | **(89)** | (93) | **1 129** | 1 123 |
| **Net increase in cash and cash equivalents** | | **2 111** | 964 | **2 524** | 557 |
| Effect of foreign exchange rate changes on cash and cash equivalents | | **420** | 215 | **330** | 142 |
| **Cash and cash equivalents at beginning of year** | | **5 219** | 4 040 | **4 513** | 3 814 |
| **Cash and cash equivalents at end of year** | | **7 750** | 5 219 | **7 367** | 4 513 |

# Statement of recognised income and expense

for the year ended 31 December 2006

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **Rm** | Rm | **Rm** | Rm |
| **Profit for the year** | **4 646** | 5 066[1] | **3 936** | 4 141[1] |
| **Other recognised income and expenses** | | | | |
| Exchange differences on foreign currency translations | **102** | 68 | | |
| Movement in gains and losses deferred to equity on cash flow hedges | **23** | 25 | **23** | 27 |
| Share of other joint venture hedging reserve | | 1 | | |
| Income tax on amounts taken directly to equity | **(5)** | | **(5)** | |
| **Total recognised income and expense for the year** | **4 766** | 5 160 | **3 954** | 4 168 |
| **Attributable to:** | | | | |
| Equity holders of the company | **4 766** | 5 160 | | |

[1] *Refer to note 26 for adjustments made to profit for the year*

# Notes to the group annual financial statements

for the year ended 31 December 2006

1. GENERAL INFORMATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all the years presented unless otherwise stated.

2.1 **Basis of preparation**

The consolidated financial statements are prepared in compliance with Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments that are designated as effective hedging instruments in a cash flow hedge, those designated as financial assets carried at Fair Value Through Profit and Loss (FVTPL), and those separately recognised from the host contract as embedded derivatives.

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3 and 4 respectively.

2.1.1 Standards, amendments and interpretations effective in 2006

The following standards, amendments and interpretations are applicable for accounting periods beginning on or after 1 January 2006.

- IAS 19, Employee Benefits – Option to recognise actuarial gains and losses in full, outside profit or loss, in a statement of recognised income and expenses.
- IAS 21, The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation.
- IAS 39, Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions.
- IAS 39, Financial Instruments: Recognition and Measurement – The Fair Value Option.
- IAS 39, Financial Instruments: Recognition and Measurement and IFRS 4, Insurance Contracts – Financial Guarantee Contracts.
- IFRS 6, Exploration for and Evaluation of Mineral Resources.
- IFRIC 4, Determining whether an Arrangement contains a Lease.
- IFRIC 5, Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.
- IFRIC 6, Liabilities arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment.

Other than for IFRIC 4, the adoption of the new and revised Standards and Interpretations has had no impact on the group's accounting policies. The impact of the adoption of IFRIC 4 is detailed in note 2.1.5.

2.1.2 Standards, Amendments and Interpretations early adopted in 2006

The following Standards, Amendments and Interpretations are mandatory for accounting periods beginning on or after 1 March 2006 or later periods and have been early adopted:

- IAS 1, Presentation of Financial Statements – Capital Disclosures (effective for annual periods beginning on or after 1 January 2007).
- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006).
- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006).
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006).
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).
- IFRIC 11, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 March 2007).
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).

The amendment of IAS 1 has resulted in the disclosure of the group's objectives, policies and processes for managing capital. Early adoption of the other amended and new Standards and Interpretations has not resulted in changes to the group's accounting policies.

2.1.3 Standards, Amendments and Interpretations published but not effective in 2006

The following Standards are mandatory for accounting periods beginning on or after 1 January 2007 and have not been early adopted:

- IFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). The impact of IFRS 7 will be to expand the disclosures provided in the financial statements regarding the group's financial instruments. Adoption will not affect the group's financial results or result in changes to the group's accounting policies.
- IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009) requires the adoption of the "management approach" to reporting on the financial performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. To the extent that such information is different from what is used to prepare the income statement, statement of recognised income and expense and the balance sheet, explanations and reconciliations are required. This standard does not have any impact on the financial position and performance of the group's operating segments, and is not expected to have a material impact on the existing segmental disclosures.

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

In compliance with the JSE Listing Requirements the following authoritative guidance issued by the South African Institute of Chartered Accountants in 2006, was considered:

- AC 503, Accounting for Black Economic Empowerment (BEE) Transactions.
- CC 12/06, Operating Leases.
- CC 10/06, Recognition and Measurement of Short-Term Insurance Contracts.
- CC 09/06, Transactions giving rise to Adjustments to Revenue/Purchases.

- CC 08/06, Disclosure of Accounting Policy for Accounting for Black Economic Empowerment (BEE) Transactions.
- CC 01/06, Disclosures in Relation to Deferred Tax.

2.1.5 Policy adoption, restatements and reclassifications

*Policy change*

IFRIC 4, Determining whether an Arrangement contains a Lease

The IFRIC issued IFRIC 4 requiring certain arrangements, that do not take the legal form of a lease but convey a right to use an asset in return for a payment or series of payments, to be treated as either finance or operating leases under IAS 17, Leases.

The group has identified lease arrangements relating to:

- Captive mining supply contracts for iron ore and coal (finance leases);
- Gas supply contracts, involving separation units, LPG and pipeline assets (finance leases);
- Scrap processing assets (finance and operating leases); and
- Rail and electricity distribution assets relating to services provided by South African parastatal entities (finance leases).

For the group, the impact of this change in accounting policy at the beginning of the comparative period is the recognition of:

- Leased assets with a gross carrying amount of R1 620 million and accumulated depreciation of R471 million;
- A decrease in loan receivables of R495 million;
- A finance lease obligation of R731 million;
- A deferred tax asset of R25 million; and
- A charge against retained earnings of R52 million.

Profit for the year ended 31 December 2005 decreased by R3 million under the new policy, corresponding to:

- An increase in leased assets of R147 million and accumulated depreciation of R166 million;
- A decrease in loan receivables of R31 million;
- A decrease in finance lease obligations of R46 million; and
- An increase in deferred tax assets of R1 million.

Profit for the year ended 31 December 2006 decreased by R4 million under the new policy, corresponding to:

- An increase in leased assets of R108 million and accumulated depreciation of R171 million; and
- A decrease in finance lease obligations of R90 million.

For the company, the impact of this change in accounting policy at the beginning of the comparative period is the recognition of:

- Leased assets with a gross carrying amount of R1 429 million and accumulated depreciation of R410 million;
- A decrease in loan receivables of R485 million;
- A finance lease obligation of R553 million;
- A deferred tax asset of R9 million; and
- A charge against retained earnings of R10 million.

Profit for the year ended 31 December 2005 increased by R1 million under the new policy, corresponding to:

- An increase in leased assets of R147 million and accumulated depreciation of R156 million;
- A decrease in loan receivables of R57 million;
- A decrease in finance lease obligations of R48 million; and
- A decrease in deferred tax assets of R1 million.

Profit for the year ended 31 December 2006 decreased by R2 million under the new policy, corresponding to:

- An increase in leased assets of R104 million and accumulated depreciation of R163 million; and
- A decrease in finance lease obligations of R82 million.

The impact on profit is reflected in the raw materials and consumables used, energy, depreciation and other operating expenses line items in the income statement.

Identified embedded operating leases had no impact on the group's financial results for 2005 and 2006 other than for the reclassification of the affected portion of the steel processing expenses to operating lease expense. Operating lease expense amounts to R25 million in 2005 and R23 million in 2006. Furthermore, operating lease commitments increased by R3 million per annum for the period 2007 to 2011.

*Reclassifications*

IAS 18, Revenue reclassification of transport cost and settlement discount allowed

*Transport costs*

Previously all amounts charged to customers in a sale transaction related to transport costs were reflected as a deduction from sales revenue. This treatment has been reassessed and changed to reflect revenue gross of such expense.

The reclassification has no impact on the financial position or performance of the group and company. The Revenue and Other operating expenses line items in the income statement have increased by R374 million for the year ended 31 December 2005. Transport costs of R501 million have been included in other operating expenses for the year ended 31 December 2006.

*Settlement discount allowed*

IAS 18, Revenue, requires that revenue be measured at the fair value of the consideration received or receivable. The group has previously accounted for settlement discount allowed to customers as other operating expenses when granted. In order to comply with IAS 18, the group has now removed settlement discount allowed from other operating expenses and has correspondingly reduced the amount of revenue recognised.

The reclassification has no impact on the financial position or performance of the group and company. The revenue and other operating expenses line items in the income statement have decreased by R349 million respectively for the year ended 31 December 2005. Settlement discount allowed deducted from revenue amounts to R451 million for the year ended 31 December 2006. Other operating expenses exclude such expenses.

IAS 31, Interests in Joint Ventures: Deconsolidation of Collect-a-Can (Proprietary) Limited

IAS 31 states that joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

The company holds 60% of the issued share capital of Collect-a-Can (Proprietary) Limited and consequently consolidated its interests as being that of a subsidiary company of the group. Even though the company is the majority shareholder, economic risk and rewards are shared equally whilst the financial and operating policies of Collect-a-Can (Proprietary) Limited are managed through consensus with the other shareholder. Consequently, the company does not hold control of Collect-a-Can (Proprietary) Limited. The interest in Collect-a-Can (Proprietary) Limited represents an interest in a joint controlled entity, and therefore is equity accounted in terms of the group's accounting policy applicable to joint venture interests.

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

- De-recognition of net assets with a carrying amount of R18 million;
- Elimination of the minority interest of R7 million;
- Reduction of retained earnings of R9 million;
- Recognition of the equity accounted investment in the joint venture of R9 million; and
- An increase in the equity accounted reserves of R7 million, representing the group's interest in attributable reserves of the joint venture.

The revised treatment had the following further impact for the year ended 31 December 2005:

- De-recognition of net assets with a carrying amount of R4 million;
- Elimination of the minority interest of R2 million;
- Reduction in retained earnings of R3 million;
- Increase in equity accounted investment in the joint venture of R2 million; and
- An increase in the equity accounted reserves of R2 million.

The impact for the year ended 31 December 2006 was insignificant.

### 2.2 Investments in subsidiaries and joint ventures by the company

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

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

The accounting for subsidiaries and joint venture entities by the group is detailed in the accounting policies below.

### 2.3 Basis of consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

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

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

Investments in subsidiaries

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

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

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Interests in joint ventures

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

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The group reports its interests in jointly controlled entities using the equity method, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. Equity accounted income represents the group's proportionate share of profits of these entities and the share of taxation thereon.

Where the group's share of losses of a joint venture exceeds the carrying amount of the joint venturer, the joint venture is carried at zero. Additional losses are only recognised to the extent that the group has incurred obligations in respect of a joint venture.

The group's share of retained earnings net of any dividends received is transferred to a non-distributable reserve.

### 2.4 Segment reporting

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

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

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

### 2.5 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- Income and expenses for each income statement are translated at average exchange rates, and
- All resulting exchange differences are recognised as a separate component of equity.

Movements in the equity reserve for exchange difference on translation of foreign operations are disclosed in the statement of recognised income and expense.

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

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

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

| | Rate at 31 December | |
|---|---|---|
| | **2006** | 2005 |
| ZAR to one USD | **6,9879** | 6,3376 |

| | Average annual rate for the year ended 31 December | |
|---|---|---|
| | **2006** | 2005 |
| ZAR to one USD | **6,7608** | 6,3471 |

## 2.6 Property, plant and equipment

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

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

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

The gross carrying amount of purchased and self-constructed assets includes all initial and subsequent costs necessary to place the assets in a condition necessary to meet their intended use. Of specific note are the following costs:

- A fair, pro-rated portion of directly allocable fixed overhead cost is charged to self-constructed assets;
- The present value of asset retirement costs (on initial recognition and subsequent changes thereto) where these costs are reliably determinable and measurable, as detailed in note 15; and
- Plant-specific critical spares, long-lived mill rolls and reconditionable spares.

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

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

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

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

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

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

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

The above guidelines are reassessed on an annual basis, and revised as appropriate.

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

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

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

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

2.7 **Accounting for finance leases as lessee**

Finance lease arrangements consist of those transactions that are leases in both economic substance and legal form and those that arise out of commercial arrangements that in economic substance represent leases, though not in legal form.

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

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

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

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

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

## 2.9 Intangible assets

### 2.9.1 Goodwill

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

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

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### 2.9.2 Internally-generated intangible assets

*Research and development*

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

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

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs include the cost of material, direct labour and an appropriate portion of overheads, are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life. Capitalised development expenditure is shown at cost less accumulated amortisation and accumulated impairment losses.

Development assets are tested for impairment annually, in accordance with IAS 36.

### 2.9.3 Purchased intangible assets other than goodwill

*Right-of-use operating licences*

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

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

*Patents and trademarks*

Acquired patents and trademarks are shown at historical cost. Patents, trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (20 years).

*Non-integrated software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 – 5 years).

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

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding 10 years).

*Mineral rights*

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

### 2.10 Impairment of non-financial assets

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

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

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

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

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

### 2.11 Financial instruments

The group classifies its financial assets in the following categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets at fair value through profit or loss

This sub-category consists of:

- Exchange traded derivatives that are not designated as part of effective hedge relationships; and
- Embedded derivatives separately recognised from the host contract.

In applying the fair value option to embedded derivatives, management have elected not to fair value the entire hybrid contract containing the embedded derivative. Embedded derivatives that are not closely related to the host contract are separately recognised and measured at fair value at the reporting date.

The group assesses whether an embedded derivative is closely related to the host contract when the entity first becomes party to the contract. Subsequent reassessment of the closely related decision is prohibited unless there is a change in the terms of the contract, in which case a reassessment is undertaken.

The assets are disclosed as current financial assets, except for maturities greater than 12 months after the balance sheet date, in which case these are classified as non-current financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are disclosed as current receivables, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current receivables. Loans and receivables that are trade related are classified as ‘Trade and Other Receivables’ in the balance sheet.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset.

Financial assets carried at Fair Value Through Profit or Loss (FVTPL) are initially recognised at fair value, and are subsequently remeasured at their fair value. Related transaction costs are expensed to profit or loss for the period.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

Loans and receivables are carried at amortised cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the FVTPL category are presented in profit or loss in the period in which they arise.

The fair values of exchange traded forward contract derivatives are based on spot or forward asking prices, as provided by the counterparty, and are assessed for reasonableness by the group. For exchange traded option contract derivatives, a Black-Scholes-Merton option model is used to derive a fair value that, for reasonableness, is compared to the valuation provided by the counterparty.

For embedded derivatives, the group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

### 2.12 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

- Hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedge); or
- Hedges of the fair value of firm commitments (fair value hedge).

The group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on at least a quarterly basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. For hedge relationship designation purposes, the group models the price and rate volatility of the hedged items using the hypothetical derivative method.

Cash flow hedge effectiveness is assessed as follows:

- US base metal forward purchase contract: regression analysis using the parameters:
  - Coefficient of determination: $R^2 > 0,8$
  - Slope: 0,8 – 1,25
  - Statistical significance: F-test > 0,95
- USD: ZAR forward or option export sales contracts: dollar off-set method (0,8 to 1,25 range).

The effectiveness of fair value hedging relationships, utilising:

- Forward freight agreements to hedge time charter firm commitments; and
- Foreign currency forward purchase and sales contracts,

are assessed using the Dollar off-set method (0,8 to 1,25 range).[1]

Ineffectiveness is measured as the change in the fair value of the hedging instrument over change in the fair value of the hypothetical derivative.

For base metal hedge relationships, the specificity in which the forecasted hedged purchase is defined permits a two month grace for timing revisions to be made from the initial forecasted purchase transaction month. Relationships that do not meet this requirement are de-designated.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 33. Movements on the cash flow hedging reserve in shareholders' equity are shown in the statement of recognised income and expense. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

#### Cash flow hedges

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

Amounts accumulated in equity are released into profit or loss in the periods when the hedged item affects profit or loss, that is, when the forecast purchase or sale that is hedged takes place. The gain or loss relating to the effective portion of:

- Base metal USD forward purchase contracts; and
- USD forward- or option (zero cost collars) sales contracts

are recognised in profit or loss as 'Gains and losses on changes in foreign exchange and financial instruments'.

*[1] These relationships are designated primarily by steel trading joint venture entity, Macsteel Holdings B.V. (MIHBV)*

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit and loss, together with any changes in the fair value of the firm commitments that are attributable to the hedged risk.

Derivatives at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss within 'Gains and losses on changes in foreign exchange and financial instruments'. The accounting treatment of derivatives at fair value through profit and loss is further detailed in note 2.11.

Financial guarantee contracts

Financial guarantee contracts where the group is at risk are recognised as present obligations initially at fair value, being the amount for which such liability could be transferred. Such obligations are measured at the higher of the IAS 37 provisions amount or at the fair value.

### 2.13 Inventories

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

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

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

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

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

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

### 2.14 Trade and other receivables

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

An allowance for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within selling, general and administrative expenses.

When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling, general and administrative expenses in profit or loss.

## 2.15 Cash and cash equivalents

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

## 2.16 Share capital

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

Ordinary shares are classified as equity.

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

Where any group company (including the share-based compensation trust) purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the company's equity holders.

## 2.17 Trade payables

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

## 2.18 Interest-bearing borrowings

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

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

## 2.19 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

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

## 2.20 Employee benefits

### Retirement

The group provides defined benefit and defined contribution funds for the benefit of employees, the assets of which are held in separate funds. These funds are funded by payments from employees and the group, taking account of the recommendations of independent actuaries.

The group's contributions to the defined contribution funds are charged to profit or loss in the period to which they relate.

The defined benefit funds consist of pensioner members and an insignificant number of employee members and are closed to new entrants. The benefit costs and obligations are assessed using the projected unit credit method. Under this method, the cost of providing benefits is charged to profit or loss so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries who perform a statutory valuation of the plans every three years.

Interim valuations are also performed on an annual basis. Consideration is given to any event that could impact the funds up to balance sheet date. The net surplus or deficit in the benefit obligation is the difference between the present value of the funded obligation and the fair value of plan assets. No actuarial surplus is recognised as the group's ability to access the future economic benefit is uncertain.

### Medical

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

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

### Bonus plans

The group recognises a liability and an expense for bonuses, based on a formula that takes into consideration cost, profit and cash generation targets. The group recognises a provision where it is contractually or constructively obliged to make bonus payments.

### Termination benefits

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

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

### Share-based compensation

The group issues equity-settled share-based payments to senior management employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Fair value is measured using the Binomial Matrix pricing model. The key assumptions for staff turnover per annum, the early-exercise multiple, risk-free rate, share price volatility and dividend yield are based on management's best estimates at the date of valuation. The reality of the pricing estimate is simultaneously assessed against the Black-Scholes-Merton pricing model.

MITTAL

2.21 **Provisions, contingent assets and contingent liabilities**

Provisions

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

- The group has a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of resources will be required to settle the obligation; and
- The amount has been reliably estimated.

The nature, background and treatment of asset retirement obligations and environmental remediation provisions are detailed in note 29.

Onerous contract provisions comprise primarily operating lease termination penalties.

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

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

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

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

Contingent liabilities

*(i) Legal claims*

Legal claims are assessed using a standardised value-at-risk (VAR) methodology in order to:

(a) determine if a present obligation exists; and

(b) measure the obligation.

Management applies its judgement to the fact patterns and advice it receives from its attorneys, advocates and other advisors.

A present obligation, classified as a provision, is recognised only if, using a VAR methodology, it is regarded as probable, that is >50% on a probability continuum.

For claims that are regarded as reasonably possible (>20% – 50%), the facts and circumstances of the possible loss and an estimate of the amount, if determinable, are disclosed.

Remote claims (<20%) are not disclosed or provided for.

*(ii) Financial guarantees*

Financial guarantee contracts are accounted for as detailed in note 2.12. For those guarantees not recognised, the financial position of the beneficiary entity is assessed using the probability continuum noted above in order to assess how the guarantee should be treated.

Contingent assets

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

2.22 **Revenue recognition**

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

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

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

Interest income

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

Dividend income

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

### 2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### 2.24 Dividend distribution

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

### 2.25 Government or parastatal grants

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

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

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

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

### 2.26 Borrowing costs

Borrowing costs, only when incurred, and thus being directly attributable to the acquisition, construction or production of qualifying assets, for assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

### 2.27 Taxation

Income tax expense represents the sum of the tax currently payable (being South African normal tax), deferred tax, and secondary tax on companies (being a South African tax on dividends).

Normal tax

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

Deferred income tax

Refer to note 2.19.

Secondary tax on companies (STC)

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

### 2.28 Offset

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

### 2.29 Comparative figures

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

## 3. CRITICAL JUDGEMENTS IN APPLYING GROUP'S ACCOUNTING POLICIES

In the process of applying the group's accounting policies management has made the following judgements that have the most significant effect on the amount recognised in the financial statements (apart from those involving estimation, which are dealt with in note 4, *Key sources of estimation uncertainty*).

### Embedded derivative instruments

In assessing if an embedded derivative requires separate identification and measurement from the host contract, management assessed the available fact patterns with regard to the impact the embedded derivative instrument has on the underlying value of the host contract. Judgement was applied as to whether the correlation between the host contract and derivative instrument could be regarded as closely related. Where the correlation relationship was judged to be weak, the embedded derivative instrument is separately identified.

### Environmental remediation and future asset retirement costs as components of tangible property, plant and equipment assets

Management's recognition of future estimates of asset retirement and remediation costs is dependent on its ability to measure and recognise these costs on initial recognition of the tangible asset. Management assesses historical trends, legislative developments and guidelines issued by the authorities in order to derive a fact pattern on which to base its judgement as to the measurement and recognition of such asset components.

### Asset retirement and environmental remediation obligations

Upon decommissioning of a facility or business operation, the group has a legal obligation with regard to the retirement of the facility and the environmental rehabilitation. The provision of plant removal and housekeeping costs that are not of a legal nature are not provided for, unless a definitive constructive obligation exists that can be subject to objective measurement and recognition criteria. Management applies its judgement and the advice received from its external environmental experts in recognising such obligations as liabilities.

### Contingent liabilities

Management applies its judgement to the fact patterns and advice it receives from its attorneys, advocates and other advisors in assessing if an obligation is probable, more likely than not, or remote. Such judgement is used to determine if the obligation is recognised as a liability or disclosed as a contingent liability.

### Consolidation of subsidiaries and special purpose entities

In assessing all its major procurement, sales and investment relationships, management has applied its judgement in the assessment of whether the commercial and economic relationship is tantamount to *de facto* control. Based on the fact patterns and management's judgement, if such control exists, the relationship of control has been recognised in terms of IAS 27 and SIC 12.

### Equity compensation benefits

Management classifies its share-based payment plan as an equity-settled plan based on its assessment of its role and that of the employees and brokerage firm in the transactions. In applying its judgement, management consulted with external expert advisors in the accounting and share-based payment advisory industry.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### Useful lives, and residual values of tangible and intangible assets

The estimates of useful lives as translated into depreciation rates are detailed in the property, plant and equipment policy above. These rates and the residual lives of the assets are reviewed annually taking cognisance of the forecasted commercial and economic realities and through benchmarking of accounting treatments within the international steel industry.

### Valuation of equity compensation benefits

The critical estimates as used in the Binomial valuation model are detailed in note 36.

### Valuation of financial instruments

The valuation of derivative financial instruments is based on the fair value at the balance sheet date. The values of these derivative instruments fluctuate on a daily basis and the actual amounts realised may differ materially from the value at which they are reflected at the balance sheet date.

The most significant application of estimates was made in the valuation of the embedded derivative instruments. These assumptions are detailed in note 33.

### Asset retirement and environmental remediation obligation estimates

Estimating the future costs of these obligations is complex and requires estimates and assumptions to be made as most of the obligations will only be fulfilled in the future. Existing contracts, laws and guidelines are not always clear as to the required end-state situation. The provisions are also affected by changing technologies and political, environmental, safety, business and legal considerations.

### Impairment of assets

An assessment at a cash-generating unit level for property, plant, equipment and intangible assets, as well as individual assessments of goodwill and financial assets, is done annually. Individual assessments of property, plant, equipment and intangible assets are done annually based on the technical, economic and business circumstances.

The key estimates applied in the assessment are detailed in the respective notes, as necessary.

### Deferred taxation assets

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

### Commercial arrangements containing financial leases

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

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

- Estimating the lease payments by reference to a lease agreement for a comparable asset that contains no other elements; or
- Where impracticable to separate the payments reliably, management recognises the leased asset and the finance lease obligation measured as the sum of the lease payments over the tenure of the arrangement, reduced by an imputed finance charge based on management's best estimate of the applicable incremental borrowing rate at inception (or reassessment) of the arrangement.

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

## 5. SEGMENTAL REPORTING

### General

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

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

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

### Business segments

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

### Principal activities are as follows:

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

| | FLAT STEEL PRODUCTS | | | |
|---|---|---|---|---|
| | Vanderbijlpark plant | | Saldanha plant | |
| | 2006 Rm | 2005 Rm | 2006 Rm | 2005 Rm |
| 5. SEGMENTAL REPORTING continued | | | | |
| **Revenue** | | | | |
| – External sales | 13 037 | 12 288 | 3 923 | 3 712 |
| – Inter-segment sales | 390 | 371 | | |
| **Total segment value** | 13 427 | 12 659 | 3 923 | 3 712 |
| Inter-segment sales are charged at prevailing market prices. | | | | |
| **Result** | | | | |
| Segment result (profit/(loss)) before depreciation, amortisation and impairments | 3 120 | 4 310 | 1 343 | 1 208 |
| Depreciation and amortisation | (519) | (601) | (394) | (399) |
| Goodwill impairment | | | | |
| Gains/(losses) on changes in foreign exchange rates and financial instruments | 283 | 111 | 44 | 77 |
| Segment operating results (profit/(loss)) | 2 884 | 3 820 | 993 | 886 |
| Share of profits of associate companies and joint venture interests | | | | |
| Net interest income/(finance costs) | | | | |
| Income from investments | | | | |
| Profit before tax | 2 884 | 3 820 | 993 | 886 |
| Income tax expense | | | | |
| **Profit/(loss) from ordinary activities** | 2 884 | 3 820 | 993 | 886 |
| **Other information** | | | | |
| Capital expenditure | 854 | 1 008 | 95 | 106 |
| Cash inflow/(outflow) from operations | 3 278 | 4 283 | 1 303 | 1 358 |
| Number of employees at year-end | 4 531 | 5 158 | 554 | 685 |
| **Balance sheet** | | | | |
| Assets | | | | |
| – Segment assets | 9 850 | 8 936 | 7 572 | 7 719 |
| – Investments in associates and joint ventures | | | | |
| **Consolidated total assets** | 9 850 | 8 936 | 7 572 | 7 719 |
| Liabilities | | | | |
| – Segment liabilities | 3 427 | 3 093 | 2 013 | 1 669 |
| **Consolidated total liabilities** | 3 427 | 3 093 | 2 013 | 1 669 |
| **Geographical segments** | | | | |
| Segment revenue | | | | |
| – Local | | | | |
| – Export | | | | |
| • Africa | | | | |
| • Europe | | | | |
| • Asia | | | | |
| • Other | | | | |
| Total exports | | | | |
| **Total segment revenue** | | | | |

| | LONG STEEL PRODUCTS | | MITTAL STEEL COKE AND CHEMICALS | | CORPORATE, OTHER AND ELIMINATIONS | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| | 2006 Rm | 2005 Rm | 2006 Rm | 2005 Rm | 2006 Rm | 2005 Rm | 2006 Rm | 2005 Rm |
| | 7 402 | 7 000 | 1 001 | 984 | | | 25 363 | 23 984 |
| | 289 | 161 | 32 | 73 | (711) | (605) | | |
| | 7 691 | 7 161 | 1 033 | 1 057 | (711) | (605) | 25 363 | 23 984 |
| | 2 270 | 2 280 | 220 | 319 | 46 | (20) | 6 999 | 8 097 |
| | (170) | (171) | (36) | (18) | (47) | (3) | (1 166) | (1 192) |
| | | | | | | (11) | | (11) |
| | 133 | 41 | 3 | (1) | 17 | 18 | 480 | 246 |
| | 2 233 | 2 150 | 187 | 300 | 16 | (16) | 6 313 | 7 140 |
| | | | | | 195 | 294 | 195 | 294 |
| | | | | | 193 | (29) | 193 | (29) |
| | | | | | 7 | 5 | 7 | 5 |
| | 2 233 | 2 150 | 187 | 300 | 411 | 254 | 6 708 | 7 410 |
| | | | | | (2 062) | (2 344) | (2 062) | (2 344) |
| | 2 233 | 2 150 | 187 | 300 | (1 651) | (2 090) | 4 646 | 5 066 |
| | 169 | 317 | 325 | 172 | 3 | 5 | 1 446 | 1 608 |
| | 2 312 | 2 165 | 263 | 293 | (1 009) | 308 | 6 147 | 8 407 |
| | 2 890 | 3 502 | 268 | 316 | 859 | 780 | 9 102 | 10 441 |
| | 3 776 | 3 557 | 892 | 584 | 7 558 | 4 629 | 29 648 | 25 425 |
| | | | | | 953 | 912 | 953 | 912 |
| | 3 776 | 3 557 | 892 | 584 | 8 511 | 5 541 | 30 601 | 26 337 |
| | 1 331 | 1 264 | 239 | 128 | 648 | 732 | 7 658 | 6 886 |
| | 1 331 | 1 264 | 239 | 128 | 648 | 732 | 7 658 | 6 886 |
| | | | | | | | 19 646 | 15 532 |
| | | | | | | | 1 978 | 2 188 |
| | | | | | | | 857 | 927 |
| | | | | | | | 2 072 | 4 398 |
| | | | | | | | 810 | 939 |
| | | | | | | | 5 717 | 8 452 |
| | | | | | | | 25 363 | 23 984 |

| | GROUP 2006 Rm | GROUP 2005 Rm | COMPANY 2006 Rm | COMPANY 2005 Rm |
|---|---|---|---|---|
| **6. REVENUE** | | | | |
| Sale of goods | 25 363 | 23 984 | 22 574 | 20 952 |
| **7. PROFIT FROM OPERATIONS** | | | | |
| Profit from operations has been arrived at after charging: | | | | |
| Amortisation of intangible assets | 16 | 40 | 14 | 38 |
| Depreciation | 1 150 | 1 152 | 758 | 756 |
| – Land and buildings | | 1 | | |
| – Buildings and infrastructure | 43 | 64 | 36 | 50 |
| – Machinery, plant and equipment | 1 020 | 1 058 | 644 | 687 |
| – Site preparation, mining development and exploration | 5 | 6 | 4 | 6 |
| – Asset retirement obligations assets | 54 | | 54 | |
| – Leased assets under finance leases | 28 | 23 | 20 | 13 |
| Consultancy fees | 30 | 21 | 26 | 19 |
| Employee costs | 2 243 | 2 104 | 2 243 | 2 104 |
| – Salaries and wages | 1 917 | 1 855 | 1 917 | 1 855 |
| – Termination benefits | 142 | 60 | 142 | 60 |
| – Pension and medical costs | 167 | 181 | 167 | 181 |
| – Share-based payment expense | 17 | 8 | 17 | 8 |
| Net deficit on disposal or scrapping of property, plant and equipment | 48 | 20 | 46 | 20 |
| Operating lease rentals | 151 | 75 | 151 | 73 |
| – Property | 75 | 4 | 75 | 2 |
| – Equipment | 76 | 71 | 76 | 71 |
| Railage and transport | 1 642 | 1 596 | 1 582 | 1 525 |
| Repairs and maintenance | 1 699 | 1 634 | 1 344 | 1 294 |
| Research and development costs | 54 | 53 | 54 | 53 |
| Reconditionable spares usage | 23 | 21 | 19 | 21 |
| Write-down of inventory to net realisable value | 22 | 12 | 22 | 12 |
| Auditors' remuneration | 10 | 10 | 9 | 10 |
| – Audit fees | 9 | 9 | 8 | 9 |
| – Other services | 1 | 1 | 1 | 1 |
| Management fees | | | (190) | (188) |
| Directors' emoluments (note 39.1) | | | 9 | 8 |

| | GROUP 2006 Rm | GROUP 2005 Rm | COMPANY 2006 Rm | COMPANY 2005 Rm |
|---|---|---|---|---|
| **8. GAINS AND LOSSES ON CHANGES IN FOREIGN EXCHANGE RATES AND FINANCIAL INSTRUMENTS** | | | | |
| Gains on changes in foreign exchange rates | 413 | 166 | 326 | 101 |
| Losses on changes in foreign exchange rates | (2) | (4) | | (2) |
| Losses on changes in the fair value of derivative instruments designated as fair value through profit and loss | (124) | (54) | (89) | (31) |
| Gains on changes in the fair value of embedded derivative instruments | 145 | 106 | 145 | 106 |
| Fair value gains transferred from equity on derivative instruments designated as cash flow hedges | 48 | 32 | 47 | 28 |
| | 480 | 246 | 429 | 202 |
| **9. NET INTEREST INCOME/(FINANCE COSTS)** | | | | |
| Bank deposit and other interest income excluding interest income from subsidiaries and equity accounted investments (note 10) | 362 | 188 | 331 | 184 |
| Interest income | 362 | 188 | 331 | 184 |
| Interest expense on bank overdrafts and loans | (14) | (21) | (2) | (8) |
| Interest expense on capital lease commitments[1] | (54) | (56) | (25) | (27) |
| Discounting rate adjustment and unwinding of the discounting effect in the present valued carrying amount of the non-current provisions[2] | (101) | (140) | (101) | (139) |
| Finance costs | (169) | (217) | (128) | (174) |
| **Net interest income/(finance costs)** | 193 | (29) | 203 | 10 |
| **10. INCOME FROM INVESTMENTS** | | | | |
| Subsidiaries and equity-accounted investments | | | | |
| Dividends received | | | 175 | 9 |
| Interest received | 7 | 5 | 7 | 5 |
| | 7 | 5 | 182 | 14 |

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

*[2]The credit adjusted discount rate was increased from 8,5% to 9,3% in line with changes in the South African risk-free rate and the credit risk premium of the company*

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 Rm | 2005 Rm | 2006 Rm | 2005 Rm |
| **11. GOODWILL IMPAIRMENT** | | | | |
| At beginning of year | | 11 | | |
| Impairment charge | | (11) | | |
| **At end of year** | | | | |
| The realisability of goodwill is evaluated annually or more frequently if there are indications that goodwill might be impaired. The valuation is based on various analyses based on cash flow and profitability projections. | | | | |
| The group assessed its expected benefits from one of its subsidiaries, Pybus Fifty-Seven (Proprietary) Limited, to be less than the carrying value. As a result an impairment loss of R11 million was recognised for the prior year. | | | | |
| **12. INCOME TAX EXPENSE** | | | | |
| **Income tax recognised in profit or loss** | | | | |
| Tax expense comprises: | | | | |
| Current tax expense | 1 420 | 1 814 | 1 370 | 1 789 |
| Adjustments recognised in the current year in relation to the current tax of prior years | 71 | | 71 | |
| | 1 491 | 1 814 | 1 441 | 1 789 |
| Deferred tax expense relating to the origination and reversal of temporary differences | 404 | 381 | 154 | 160 |
| Deferred tax income recognised in the current year in relation to the deferred tax of prior years | (56) | (1) | (72) | |
| Effect of changes in tax rate | | (56) | | (34) |
| | 348 | 324 | 82 | 126 |
| Share of taxation on income of equity-accounted investments | 60 | 17 | | |
| Secondary tax on companies | 163 | 189 | 158 | 189 |
| **Total tax expense** | 2 062 | 2 344 | 1 681 | 2 104 |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 Rm | 2005 Rm | 2006 Rm | 2005 Rm |
| 12. INCOME TAX EXPENSE continued | | | | |
| **The total charge for the year can be reconciled to the accounting profit as follows:** | | | | |
| Profit from operations | 6 708 | 7 410 | 5 617 | 6 245 |
| Income tax expense calculated at 29%[1] | 1 945 | 2 149 | 1 629 | 1 811 |
| Effect of revenue that is exempt from taxation | (3) | (2) | (53) | (5) |
| Effect of expenses that are not deductible in determining taxable profit | 28 | 127 | 29 | 121 |
| Effect of tax concessions[2] | (97) | | (97) | |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (5) | (83) | | |
| Effect of revenue imputed from controlled foreign companies | 21 | 22 | 21 | 22 |
| Effect on deferred tax balances due to the change in income tax rate from 30% to 29% (effective 1 January 2005) | | (57) | | (34) |
| Tax rebate on foreign dividends | (5) | | (5) | |
| Adjustments recognised in the current year in relation to the current tax and deferred tax of prior years | 15 | (1) | (1) | |
| Secondary tax on companies | 163 | 189 | 158 | 189 |
| | 2 062 | 2 344 | 1 681 | 2 104 |
| Taxation as a percentage of profit before taxation (%) | 30,7 | 31,6 | 29,9 | 33,7 |
| **Income tax recognised in equity** | | | | |
| Current tax | | | | |
| Normal tax payable on gains and losses realised but not yet recognised in income statement on cash flow hedges | 5 | | 5 | |
| **Total current tax recognised in equity** | 5 | | 5 | |

[1] *The tax rate used for the 2006 and 2005 reconciliations above is the corporate tax rate of 29% payable by corporate entities in South Africa on taxable profits*

[2] *Strategic Industrial Project (SIP) allowance granted in terms of section 12(g) of the South African Income Tax Act for construction of the coke oven batteries in Newcastle plant. The latter is a Mittal Steel Coke and Chemicals project for the production of market coke*

| | GROUP 2006 | GROUP 2005 | COMPANY 2006 | COMPANY 2005 |
|---|---|---|---|---|
| **13. EARNINGS PER SHARE** | | | | |
| Basic earnings per share is calculated by dividing earnings by the weighted average number of ordinary shares in issue during the year. | | | | |
| The weighted average number of shares is calculated taking into account the shares issued as disclosed in the directors' report. | | | | |
| Profit attributable to equity holders of the company (Rm) | 4 646 | 5 066 | | |
| Weighted average number of ordinary shares in issue (thousands) | 445 752 | 445 752 | | |
| **Basic earnings per share (cents)** | 1 042 | 1 137 | | |
| Diluted earnings per share is calculated by dividing the earnings by the weighted average number of ordinary shares in issue during the year increased by the number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. | | | | |
| Profit attributable to equity holders of the company (Rm) | 4 646 | 5 066 | | |
| Weighted average number for diluted shares (thousands) | 446 449 | 446 625 | | |
| **Diluted earnings per share (cents)** | 1 041 | 1 134 | | |
| The calculation for headline earnings per share is based on the basic earnings per share calculation adjusted for the following items: | | | | |
| Profit attributable to ordinary shareholders (Rm) | 4 646 | 5 066 | | |
| Adjusted for: | | | | |
| – Goodwill impairment (Rm) (note 11) | | 11 | | |
| **Headline earnings (Rm)** | 4 646 | 5 077 | | |
| **Headline earnings per share (cents)** | | | | |
| – Basic | 1 042 | 1 139 | | |
| – Diluted | 1 041 | 1 137 | | |
| The weighted average number of shares used in computation of diluted earnings per share were determined as follows (thousands): | | | | |
| – Shares in issue | 445 752 | 445 752 | | |
| Adjustments for dilutive impact of the Mittal Steel South Africa Management Share Trust: | | | | |
| – Shares under option | 606 | 683 | | |
| – Shares under loan purchase and deferred purchase | 91 | 190 | | |
| **Diluted shares in issue (thousands)** | 446 449 | 446 625 | | |

14. DIVIDEND PER SHARE

The dividend distribution for 2006 consists of the following:

- On 13 February 2006, a final dividend of 140 cents per share (R624 million) for the 2005 financial year was paid to shareholders on 20 March 2006;
- On 31 July 2006, an interim dividend of 143 cents per share (R637 million) for the 2006 financial year was paid to shareholders on 4 September 2006; and
- On 19 February 2007 the directors declared a final dividend of 204 cents per share for the 2006 financial year that has not been included as a distribution liability payable to all shareholders on the Register of Members on 23 March 2007. The total estimated dividends to be paid is R909 million.

The dividend distribution for 2005 consists of the following:

- On 8 February 2005, a final dividend of 100 cents per share (R446 million) for the 2004 financial year was paid to shareholders on 14 March 2005; and
- On 8 August 2005, an interim dividend of 240 cents per share (R1 070 million) for the 2005 financial year was paid to shareholders on 12 September 2005.

15. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings Rm | Buildings and infrastructure Rm |
|---|---|---|
| GROUP | | |
| **For the year ended 31 December 2006** | | |
| **Gross carrying amount** | | |
| At beginning of year | **55** | **1 746** |
| Additions | **6** | **1** |
| Disposals | **(1)** | **(8)** |
| Other movements | | **3** |
| Reclassified as held for sale | | |
| At end of year | **60** | **1 742** |
| **Accumulated depreciation and impairment losses** | | |
| At beginning of year | **2** | **995** |
| Depreciation charges | | **43** |
| Accumulated depreciation on disposals | | **(7)** |
| Other | | |
| Reclassified as held for sale | | |
| At end of year | **2** | **1 031** |
| **Net carrying amount at end of year** | **58** | **711** |
| GROUP | | |
| **For the year ended 31 December 2005** | | |
| **Gross carrying amount** | | |
| At beginning of year | 51 | 1 729 |
| Recognised leased asset in terms of IFRIC 4 at 1 January 2005 | | |
| Deconsolidation of joint venture | | |
| Additions | 4 | 16 |
| Disposals | | |
| Other movements | | 1 |
| At end of year | 55 | 1 746 |
| **Accumulated depreciation and impairment losses** | | |
| At beginning of year | 1 | 930 |
| Recognised leased asset in terms of IFRIC 4 at 1 January 2005 | | |
| Deconsolidation of joint venture | | |
| Depreciation charges | 1 | 64 |
| Other movement | | 1 |
| Accumulated depreciation on disposals | | |
| At end of year | 2 | 995 |
| **Net carrying amount at end of year** | 53 | 751 |

MITTAL

| Machinery, plant and equipment Rm | Site preparation, mining development, exploration and rehabilitation Rm | Asset retirement obligation component asset at present value on origination Rm | Leased assets Rm | Extensions under construction Rm | Total Rm |
|---|---|---|---|---|---|
| **19 659** | **98** | | **1 767** | **1 313** | **24 638** |
| **877** | | **146** | **108** | **578** | **1 716** |
| **(185)** | | | | | **(194)** |
| **729** | | | | **(759)** | **(27)** |
| **(35)** | | | | | **(35)** |
| **21 045** | **98** | **146** | **1 875** | **1 132** | **26 098** |
| **8 690** | **54** | | **637** | | **10 378** |
| **1 020** | **5** | **54** | **28** | | **1 150** |
| **(107)** | | | | | **(114)** |
| **(11)** | | **55** | **143** | | **187** |
| **(29)** | | | | | **(29)** |
| **9 563** | **59** | **109** | **808** | | **11 572** |
| **11 482** | **39** | **37** | **1 067** | **1 132** | **14 526** |
| 18 704 | 109 | | | 804 | 21 397 |
| | | | 1 620 | | 1 620 |
| (21) | | | | | (21) |
| 1 023 | (11) | | 147 | 536 | 1 715 |
| (116) | | | | | (116) |
| 69 | | | | (27) | 43 |
| 19 659 | 98 | | 1 767 | 1 313 | 24 638 |
| 7 716 | 49 | | | | 8 696 |
| | | | 471 | | 471 |
| (17) | | | | | (17) |
| 1 058 | 6 | | 23 | | 1 152 |
| | (1) | | 143 | | 143 |
| (67) | | | | | (67) |
| 8 690 | 54 | | 637 | | 10 378 |
| 10 969 | 44 | | 1 130 | 1 313 | 14 260 |

15. PROPERTY, PLANT AND EQUIPMENT continued

| | Land and buildings Rm | Buildings and infrastructure Rm |
|---|---|---|
| COMPANY | | |
| **For the year ended 31 December 2006** | | |
| **Gross carrying amount** | | |
| At beginning of year | **49** | **1 397** |
| Additions | **6** | **1** |
| Disposals | **(1)** | **(8)** |
| Other movements | | **3** |
| Reclassified as held for sale | | |
| At end of year | **54** | **1 393** |
| **Accumulated depreciation and impairment losses** | | |
| At beginning of year | | **864** |
| Depreciation charges | | **36** |
| Accumulated depreciation on disposals | | **(6)** |
| Other movements | | |
| Reclassified as held for sale | | |
| At end of year | | **894** |
| **Net carrying amount at end of year** | **54** | **499** |
| COMPANY | | |
| **For the year ended 31 December 2005** | | |
| **Gross carrying amount** | | |
| At beginning of year | 45 | 1 381 |
| Recognised leased asset in terms of IFRIC 4 at 1 January 2005 | | |
| Additions | 4 | 16 |
| Disposals | | |
| At end of year | 49 | 1 397 |
| **Accumulated depreciation and impairment losses** | | |
| At beginning of year | | 813 |
| Recognised leased asset in terms of IFRIC 4 at 1 January 2005 | | |
| Depreciation charges | | 50 |
| Accumulated depreciation on disposals | | |
| Other movements | | 1 |
| At end of year | | 864 |
| **Net carrying amount at end of year** | 49 | 533 |

The maximum rates used for the depreciation of property, plant and equipment are detailed in note 2.

| Machinery, plant and equipment Rm | Site preparation, mining development, exploration and rehabilitation Rm | Asset retirement obligation component asset at present value on origination Rm | Leased assets Rm | Extensions under construction Rm | Total Rm |
|---|---|---|---|---|---|
| 10 638 | 98 | | 1 576 | 1 194 | 14 952 |
| 856 | | 146 | 104 | 507 | 1 620 |
| (171) | | | | | (180) |
| 659 | | | | (670) | (8) |
| (35) | | | | | (35) |
| 11 947 | 98 | 146 | 1 680 | 1 031 | 16 349 |
| 5 426 | 55 | | 566 | | 6 911 |
| 644 | 4 | 54 | 20 | | 758 |
| (106) | | | | | (112) |
| 10 | | 55 | 143 | | 208 |
| (29) | | | | | (29) |
| 5 945 | 59 | 109 | 729 | | 7 736 |
| 6 002 | 39 | 37 | 951 | 1 031 | 8 613 |
| 9 780 | 109 | | | 711 | 12 026 |
| | | | 1 429 | | 1 429 |
| 972 | (11) | | 147 | 483 | 1 611 |
| (114) | | | | | (114) |
| 10 638 | 98 | | 1 576 | 1 194 | 14 952 |
| 4 805 | 49 | | | | 5 667 |
| | | | 410 | | 410 |
| 687 | 6 | | 13 | | 756 |
| (66) | | | | | (66) |
| | | | 143 | | 144 |
| 5 426 | 55 | | 566 | | 6 911 |
| 5 212 | 43 | | 1 010 | 1 194 | 8 041 |

15. PROPERTY, PLANT AND EQUIPMENT continued

### Recoverable amount of cash-generating units

In addition to ongoing recoverable amount reviews on individual assets, the group carried out its annual review of the recoverable amount of its manufacturing plant and equipment to the extent that these represent identifiable cash-generating units. The annual review is performed having regard for the group's capital expenditure expansion programme and the cyclical, fragmented nature of the global steel industry.

The review confirmed that the recoverable amount, as value in use, of the identifiable cash-generating units exceeds the corresponding net carrying amount of the underlying asset. The discount rate used in measuring value in use was 12% (December 2005: 14%) and 9,6% (December 2005: 10,7%) of ZAR and USD denominated cash flows respectively.

Fully depreciated assets as at 31 December 2006 amount to R2 218 million (December 2005: R2 204 million).

### Land register and asset pledges

A register of land is available for inspection at the registered office of the company.
The group has not pledged property, plant and equipment to secure banking facilities granted to the group.

### Asset retirement obligation

As detailed in note 29, the group embarked on an improvement project which results in, *inter alia*, the sub-division of the environmental rehabilitation provision into asset retirement and environmental remediation obligations. Correspondingly, the cost of such asset retirement has been capitalised as required by IAS 16 (revised), Property, Plant and Equipment and IFRIC 1, Changes in Existing Decommissioning Restoration and Similar Liabilities. The gross carrying amount is based on the present value of future cash flows and is depreciated over the useful life of the underlying productive asset.

### Capitalised finance lease assets

Finance lease assets consist of plant and machinery and the assets of two captive mines. The composition of the property, plant and equipment of the captive mines is contained in the abridged note as follows.

15. PROPERTY, PLANT AND EQUIPMENT continued

| | Land and buildings Rm | Building and infra-structure Rm | Machinery, plant and equipment Rm | Site preparation, mining, development, exploration and rehabili-tation Rm | Extensions under construc-tion Rm | Total Rm |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2006** | | | | | | |
| **Gross carrying amount** | | | | | | |
| At beginning of year | **21** | **121** | **443** | **591** | **205** | **1 381** |
| Additions/transfers | **1** | **3** | **23** | **209** | **(136)** | **100** |
| At end of year | **22** | **124** | **466** | **800** | **69** | **1 481** |
| **Accumulated depreciation and impairment** | | | | | | |
| At beginning of year | **8** | **49** | **221** | **179** | | **457** |
| Depreciation | **2** | **11** | **60** | **74** | | **147** |
| At end of year | **10** | **60** | **281** | **253** | | **604** |
| **Net carrying amount at end of year** | **12** | **64** | **185** | **547** | **69** | **877** |
| **For the year ended 31 December 2005** | | | | | | |
| **Gross carrying amount at cost** | | | | | | |
| At beginning of year | 20 | 117 | 418 | 531 | 175 | 1 261 |
| Additions/transfers | 1 | 4 | 26 | 60 | 30 | 121 |
| At end of year | 21 | 121 | 444 | 591 | 205 | 1 382 |
| **Accumulated depreciation and impairment** | | | | | | |
| At beginning of year | 6 | 37 | 154 | 118 | | 315 |
| Depreciation | 2 | 12 | 68 | 62 | | 144 |
| At end of year | 8 | 49 | 222 | 180 | | 459 |
| **Net carrying amount at end of year** | 13 | 72 | 222 | 411 | 205 | 923 |

16. INTANGIBLE ASSETS

| | Patents and trademarks Rm | Non-integrated software Rm | Total Rm |
|---|---|---|---|
| GROUP | | | |
| **For the year ended 31 December 2006** | | | |
| **Gross carrying amount** | | | |
| At beginning of year | **41** | **214** | **255** |
| At end of year | **41** | **214** | **255** |
| **Accumulated depreciation** | | | |
| At beginning of year | **13** | **168** | **181** |
| Amortisation charge | **2** | **14** | **16** |
| At end of year | **15** | **182** | **197** |
| **Net carrying amount at end of year** | **26** | **32** | **58** |
| GROUP | | | |
| **For the year ended 31 December 2005** | | | |
| **Gross carrying amount** | | | |
| At beginning of year | 41 | 214 | 255 |
| At end of year | 41 | 214 | 255 |
| **Accumulated depreciation** | | | |
| At beginning of year | 11 | 130 | 141 |
| Amortisation charge | 2 | 38 | 40 |
| At end of year | 13 | 168 | 181 |
| **Net carrying amount at end of year** | 28 | 46 | 74 |

16. INTANGIBLE ASSETS continued

| | Patents and trademarks Rm | Non-integrated software Rm | Total Rm |
|---|---|---|---|
| COMPANY | | | |
| **For the year ended 31 December 2006** | | | |
| **Gross carrying amount** | | | |
| At beginning of year | | **214** | **214** |
| At end of year | | **214** | **214** |
| **Accumulated depreciation** | | | |
| At beginning of year | | **168** | **168** |
| Amortisation charge | | **14** | **14** |
| At end of year | | **182** | **182** |
| **Net carrying amount at end of year** | | **32** | **32** |
| COMPANY | | | |
| **For the year ended 31 December 2005** | | | |
| **Gross carrying amount** | | | |
| At beginning of year | | 214 | 214 |
| At end of year | | 214 | 214 |
| **Accumulated depreciation** | | | |
| At beginning of year | | 130 | 130 |
| Amortisation charge | | 38 | 38 |
| At end of year | | 168 | 168 |
| **Net carrying amount at end of year** | | 46 | 46 |

| | GROUP 2006 Rm | GROUP 2005 Rm | COMPANY 2006 Rm | COMPANY 2005 Rm |
|---|---|---|---|---|
| **17. INVESTMENTS IN JOINT VENTURES** | | | | |
| **Unlisted incorporated joint ventures** | | | | |
| At beginning of year | 912 | 605 | 32 | 32 |
| Net share of results | | | | |
| – Share of results before taxation as per income statement | 195 | 294 | | |
| – Share of taxation (note 12) | (60) | (17) | | |
| Dividends received | (167) | (38) | | |
| Currency translation differences | 73 | 67 | | |
| Share of hedging reserves | | 1 | | |
| **At end of year (Annexure 1)** | 953 | 912 | 32 | 32 |
| Aggregate post-acquisition reserves: | | | | |
| – Joint ventures | 654 | 686 | | |
| **18. INVESTMENTS IN SUBSIDIARIES** | | | | |
| Indebtedness | | | | |
| – By subsidiaries | | | 6 266 | 7 446 |
| – To subsidiaries | | | (126) | (97) |
| **Total indebtedness** | | | 6 140 | 7 349 |
| Net indebtedness after provision | | | 3 341 | 4 550 |
| Shares at cost (Annexure 2) | | | 256 | 332 |
| **Total** | | | 3 597 | 4 882 |
| Aggregate attributable after tax profits/losses of subsidiaries equals: | | | | |
| – Profits | | | 914 | 654 |
| The majority of the carrying value of the company's investment in subsidiaries consists of its investment in Saldanha Steel being the cost of shares and indebtedness, at the initial and subsequent acquisition dates, less impairments. | | | | |
| **19. NON-CURRENT FINANCIAL ASSETS** | | | | |
| Embedded derivatives carried at fair value | 134 | 61 | 134 | 61 |

The non-current financial assets consist of the revaluation of in-the-money long-term embedded derivative instruments. The derivation of fair value is detailed in note 33.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | Rm | Rm | Rm | Rm |
| **20. LOAN RECEIVABLES** | | | | |
| Non-current interest-free loan receivables | 4 | 10 | 107 | 69 |
| Included in the company's loan receivables is the funding loan to the Mittal Steel South Africa Management Share Trust of R103 million (December 2005: R60 million). | | | | |
| The complete maturity profile for receivables is detailed in note 33. | | | | |
| **21. ASSETS CLASSIFIED AS HELD FOR SALE** | | | | |
| Machinery, plant and equipment held for sale | 6 | | 6 | |
| Manufacturing of ferrite powder at Mittal Steel Coke and Chemicals ceased in 31 March 2006 due to market conditions. The company has approved of the disposal of the plant. A short-list of likely buyers has been compiled. Disposal is expected to be completed within 2007. No impairment charge was incurred. The carrying amount of the plant represents the latest tender value less disposal costs. | | | | |
| **22. INVENTORIES** | | | | |
| Finished products | 1 063 | 1 086 | 977 | 967 |
| Work-in-progress | 1 851 | 1 234 | 1 841 | 1 218 |
| Raw materials | 1 458 | 1 229 | 1 222 | 1 098 |
| Plant spares and stores | 403 | 358 | 343 | 285 |
| | 4 775 | 3 907 | 4 383 | 3 568 |

Included in the above are finished products of R91 million (December 2005: R122 million) and work-in-progress of R7 million (December 2005: R15 million) which has been written down to net realisable value.

| | GROUP 2006 Rm | GROUP 2005 Rm | COMPANY 2006 Rm | COMPANY 2005 Rm |
|---|---|---|---|---|
| **23. TRADE AND OTHER RECEIVABLES** | | | | |
| Trade | 1 908 | 1 610 | 1 736 | 1 521 |
| Other | 180 | 122 | 90 | 80 |
| | 2 088 | 1 732 | 1 826 | 1 601 |
| Trade receivables are shown net of the following allowances: | | | | |
| – Allowance for doubtful debts | 3 | 6 | 3 | 6 |
| – Allowance for complaints | 88 | 87 | 88 | 87 |
| – Allowance for settlement discount | 33 | 29 | 33 | 29 |
| – Allowance for concessions | 88 | 96 | 86 | 96 |
| | 212 | 218 | 210 | 218 |
| **24. CURRENT FINANCIAL ASSETS/(LIABILITIES)** | | | | |
| Embedded derivatives carried at fair value | 117 | 45 | 117 | 45 |
| Derivatives designated and effective as cash flow hedging instruments carried at fair value | | | | |
| Base metal forward contracts | 16 | 14 | 16 | 14 |
| Foreign currency purchase contracts | | (13) | | (13) |
| Total | 16 | 1 | 16 | 1 |
| Financial assets carried at Fair Value Through Profit and Loss (FVTPL) | | | | |
| Base metal forward contracts | 3 | | 3 | |
| Foreign currency purchase contracts | (8) | | (8) | |
| Total | (5) | | (5) | |
| **Total** | 128 | 46 | 128 | 46 |

Details relating to the financial instruments are contained in note 33. Base metal forward derivatives classified as FVTPL represent de-designated ineffective cash flow hedging instruments and instruments that by first intent are not designated within a cash flow hedging relationship.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **Rm** | Rm | **Rm** | Rm |
| 25. STATED CAPITAL | | | | |
| **Authorised** | | | | |
| 1 200 000 000 ordinary shares at no par value | | | | |
| (December 2005: 1 200 000 000 ordinary shares at no par value) | | | | |
| 2 357 584 "C" redeemable preference shares at R10 each | | | | |
| (December 2005: 2 357 584) | **24** | 24 | **24** | 24 |
| **Issued** | | | | |
| 445 752 132 ordinary shares at no par value | | | | |
| (December 2005: 445 752 132 ordinary shares at no par value) | **6 389** | 6 389 | **6 389** | 6 389 |
| **Total** | **6 389** | 6 389 | **6 389** | 6 389 |

The unissued ordinary shares are under the control of the directors to allot and issue on such terms and at conditions and at such times as they deem fit until the forthcoming general meeting.

The group has a share-based payment plan in terms of which shares are issued and options are granted (note 36).

26. RECONCILIATION OF CHANGES IN EQUITY

| | | NON-DISTRIBUTABLE RESERVE | | |
|---|---|---|---|---|
| | Stated capital Rm | Capital redemption reserve Rm | Management share trust Rm | Share-based payment reserve Rm |
| GROUP | | | | |
| **Balance at 1 January 2005** | 6 389 | 23 | (34) | 2 |
| As previously stated | 6 389 | 23 | (34) | 2 |
| Effect of leased asset recognised in terms of IFRIC 4 | | | | |
| Deconsolidation of joint venture | | | | |
| **Changes in equity for 2005** | | | | |
| Total recognised income and expense for the year | | | | |
| Profit for the year | | | | |
| Currency translation differences | | | | |
| Effect of cash flow hedge accounting | | | | |
| Share of joint venture hedging reserve | | | | |
| Management share trust loss | | | (42) | |
| Share option charge: IFRS 2 | | | | 8 |
| Dividend | | | | |
| Transfer movement of insurance reserve | | | | |
| Transfer of equity-accounted earnings | | | | |
| **Balance at 31 December 2005** | 6 389 | 23 | (76) | 10 |
| **Changes in equity for 2006** | | | | |
| Total recognised income and expense for the year | | | | |
| Profit for the year | | | | |
| Currency translation differences | | | | |
| Effect of cash flow hedge accounting (net of income tax) | | | | |
| Management share trust loss | | | (30) | |
| Share option charge: IFRS 2 | | | | 17 |
| Dividend | | | | |
| Transfer of equity-accounted earnings | | | | |
| **Balance at 31 December 2006** | **6 389** | **23** | **(106)** | **27** |

| Attributable reserves of equity accounted investments Rm | Joint venture hedging reserve Rm | Translation of foreign operations Rm | Cash flow hedge accounting reserve Rm | Insurance reserve Rm | Retained income Rm | Shareholders' equity Rm | Minority interest Rm | Total equity Rm |
|---|---|---|---|---|---|---|---|---|
| 449 | (1) | (114) | (13) | 1 | 9 139 | 15 841 | | 15 841 |
| 442 | (1) | (114) | (13) | 1 | 9 200 | 15 895 | 7 | 15 902 |
| | | | | | (52) | (52) | | (52) |
| 7 | | | | | (9) | (2) | (7) | (9) |
| | 1 | 68 | 25 | | 5 066 | 5 160 | | 5 160 |
| | | | | | 5 066 | 5 066 | | 5 066 |
| | | 68 | | | | 68 | | 68 |
| | | | 25 | | | 25 | | 25 |
| | 1 | | | | | 1 | | 1 |
| | | | | | | (42) | | (42) |
| | | | | | | 8 | | 8 |
| | | | | | (1 516) | (1 516) | | (1 516) |
| | | | | (1) | 1 | | | |
| 237 | | | | | (237) | | | |
| 686 | | (46) | 12 | | 12 453 | 19 451 | | 19 451 |
| | | 102 | 18 | | 4 646 | 4 766 | | 4 766 |
| | | | | | 4 646 | 4 646 | | 4 646 |
| | | 102 | | | | 102 | | 102 |
| | | | 18 | | | 18 | | 18 |
| | | | | | | (30) | | (30) |
| | | | | | | 17 | | 17 |
| | | | | | (1 261) | (1 261) | | (1 261) |
| (32) | | | | | 32 | | | |
| **654** | | **56** | **30** | | **15 870** | **22 943** | | **22 943** |

26. RECONCILIATION OF CHANGES IN EQUITY continued

| | | NON-DISTRIBUTABLE RESERVE | | | | |
|---|---|---|---|---|---|---|
| | Stated capital Rm | Capital redemption reserve Rm | Share-based payment reserve Rm | Cash flow hedge accounting reserve Rm | Retained income Rm | Total equity Rm |
| COMPANY | | | | | | |
| **Balance at 1 January 2005** | 6 389 | 23 | 2 | (15) | 8 937 | 15 336 |
| As previously stated | 6 389 | 23 | 2 | (15) | 8 947 | 15 346 |
| Effect of leased assets recognised in terms of IFRIC 4 | | | | | (10) | (10) |
| **Changes in equity for 2005** | | | | | | |
| Total recognised income and expense for the year | | | | 27 | 4 141 | 4 168 |
| Net profit for the year | | | | | 4 141 | 4 141 |
| Effect of cash flow hedge accounting | | | | 27 | | 27 |
| Share option charge: IFRS 2 | | | 8 | | | 8 |
| Dividend | | | | | (1 516) | (1 516) |
| **Balance at 31 December 2005** | 6 389 | 23 | 10 | 12 | 11 562 | 17 996 |
| **Changes in equity for 2006** | | | | | | |
| Total recognised income and expense for the year | | | | 18 | 3 936 | 3 954 |
| Net profit for the year | | | | | 3 936 | 3 936 |
| Effect of cash flow hedge accounting (net of income tax) | | | | 18 | | 18 |
| Share option charge: IFRS 2 | | | 17 | | | 17 |
| Dividend | | | | | (1 261) | (1 261) |
| **Balance at 31 December 2006** | **6 389** | **23** | **27** | **30** | **14 237** | **20 706** |

26. RECONCILIATION OF CHANGES IN EQUITY continued

### Capital redemption reserve

The capital redemption reserve fund was created in terms of section 98(1) of the South African Companies Act of 1973, following the redemption of odd-lot shares during the year ended 30 June 2000, out of profits that would otherwise be available for distribution to ordinary shareholders.

### Management share trust reserve

The management share trust reserve represents the accumulated losses of the equity-settled, share-based compensation plan for senior management and executive directors, consolidated as a controlled special purpose entity in terms of SIC 12, Consolidation – Special Purpose Entities.

### Share-based payment reserve

The share-based payment reserve represents the accumulated charge for share options in terms of IFRS 2.

### Translation of foreign operations reserve

The translation of foreign operations reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

### Cash flow hedge accounting reserve

The cash flow hedge accounting reserve comprises the portion of the cumulative net change in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred.

| | GROUP 2006 Rm | GROUP 2005 Rm | COMPANY 2006 Rm | COMPANY 2005 Rm |
|---|---|---|---|---|
| **27. INTEREST-BEARING BORROWINGS** | | | | |
| **Unsecured – at amortised cost** | | | | |
| Loan from Pretoria Portland Cement | 71 | 81 | | |
| Included in the financial statements as: | | | | |
| Non-current interest-bearing borrowings | 61 | 71 | | |
| Current interest-bearing borrowings | 10 | 10 | | |
| **Total** | 71 | 81 | | |
| The loan is unsecured and bears interest at a fixed rate of 16,00 % and is repayable annually with the final payment due in 2013. | | | | |
| **28. FINANCE LEASE OBLIGATIONS** | | | | |
| **Secured – at amortised cost** | 595 | 685 | 423 | 505 |
| Included in the financial statements as: | | | | |
| Non-current finance lease obligation | 502 | 596 | 337 | 423 |
| Current finance lease obligation | 93 | 89 | 86 | 82 |
| **Total** | 595 | 685 | 423 | 505 |

Secured by leased assets. The borrowings are fixed rate debt. The final payments in terms of the lease arrangements, sorted by functional type, are:

- Raw materials: 2010 – 2013
- Gases: 2016
- Electricity and transport utilities: 2018 – 2022
- Steel processing and foundry services: 2011

MITTAL

28. FINANCE LEASE OBLIGATIONS continued

The following finance leases are embedded within supply arrangements between the group and its suppliers and have been assessed in terms of IFRIC 4, Determining whether an Arrangement contains a Lease.

**Finance lease obligation by function**

| | Minimum lease payments | | | | | |
|---|---|---|---|---|---|---|
| | Not later than 1 year Rm | Later than 1 year and not later than 5 years Rm | Later than 5 years Rm | Total Rm | Less future finance charges Rm | Present value of minimum lease payments Rm |
| GROUP | | | | | | |
| **For the year ended 31 December 2006** | | | | | | |
| Raw materials | **66** | **224** | | **290** | | **290** |
| Gases | **42** | **117** | **97** | **256** | **124** | **132** |
| Electricity and transport utilities | **28** | **113** | **259** | **400** | **247** | **153** |
| Steel processing and foundry services | **6** | **16** | **1** | **23** | **3** | **20** |
| **Total** | **142** | **470** | **357** | **969** | **374** | **595** |
| GROUP | | | | | | |
| **For the year ended 31 December 2005** | | | | | | |
| Raw materials | 66 | 291 | | 357 | | 357 |
| Gases | 42 | 134 | 123 | 299 | 150 | 149 |
| Electricity and transport utilities | 28 | 113 | 288 | 429 | 272 | 157 |
| Steel processing and foundry services | 6 | 22 | 1 | 29 | 7 | 22 |
| **Total** | 142 | 560 | 412 | 1 114 | 429 | 685 |
| COMPANY | | | | | | |
| **For the year ended 31 December 2006** | | | | | | |
| Raw materials | **66** | **224** | | **290** | | **290** |
| Gases | **40** | **115** | **97** | **252** | **123** | **129** |
| Steel processing and foundry services | **2** | **2** | | **4** | | **4** |
| **Total** | **108** | **341** | **97** | **546** | **123** | **423** |
| COMPANY | | | | | | |
| **For the year ended 31 December 2005** | | | | | | |
| Raw materials | 66 | 291 | | 357 | | 357 |
| Gases | 40 | 130 | 122 | 292 | 149 | 143 |
| Steel processing and foundry services | 2 | 4 | | 6 | 1 | 5 |
| **Total** | 108 | 425 | 122 | 655 | 150 | 505 |

## 29. PROVISIONS

| | Asset retirement obligation Rm | Environmental remediation Rm |
|---|---|---|
| **GROUP** | | |
| **For the year ended 31 December 2006** | | |
| At beginning of year | | **929** |
| Transfer | **171** | **(171)** |
| Charge to income statement | **(25)** | **107** |
| Additions/(releases) | **(25)** | **92** |
| Interest adjustment | | **15** |
| Utilised during year | | **(52)** |
| At end of year | **146** | **813** |
| Current portion included in current liabilities | **(16)** | **(28)** |
| **Total non-current provisions** | **130** | **785** |

| | Onerous contract Rm | Environ-mental remediation Rm | Leave pay benefits Rm | Post-retirement medical aid benefits Rm | Restruc-turing Rm | Total Rm |
|---|---|---|---|---|---|---|
| **GROUP** | | | | | | |
| **For the year ended 31 December 2005** | | | | | | |
| At beginning of year | 331 | 725 | 239 | 19 | 69 | 1 383 |
| Charge to income statement | 16 | 212 | 73 | (5) | 27 | 323 |
| Additional provisions | 100 | 169 | 88 | | 54 | 411 |
| Interest adjustment | 97 | 43 | | | | 140 |
| Unused amounts reversed | (181) | | (15) | (5) | (27) | (228) |
| Utilised during year | (69) | (8) | (62) | (4) | (87) | (230) |
| At end of year | 278 | 929 | 250 | 10 | 9 | 1 476 |
| Current portion included in current liabilities | (75) | (11) | (89) | (4) | (9) | (188) |
| **Total non-current provisions** | 203 | 918 | 161 | 6 | | 1 288 |

| Onerous contracts Rm | Leave pay benefits Rm | Post-retirement medical aid benefits Rm | Restructuring Rm | Other Rm | Total Rm |
|---|---|---|---|---|---|
| 278 | 250 | 10 | 9 | | 1 476 |
| 100 | 65 | | | 73 | 320 |
| 14 | 65 | | | 73 | 219 |
| 86 | | | | | 101 |
| (66) | (72) | (1) | (9) | | (200) |
| 312 | 243 | 9 | | 73 | 1 596 |
| (66) | (85) | (1) | | (73) | (269) |
| 246 | 158 | 8 | | | 1 327 |

29. PROVISIONS continued

| | Asset retirement obligation Rm | Environmental remediation Rm |
|---|---|---|
| **COMPANY** | | |
| **For the year ended 31 December 2006** | | |
| At beginning of year | | **920** |
| Transfer | **171** | **(171)** |
| Charge to income statement | **(25)** | **107** |
| Additions/(releases) | **(25)** | **92** |
| Interest adjustment | | **15** |
| Utilised during year | | **(51)** |
| At end of year | **146** | **805** |
| Current portion included in current liabilities | **(16)** | **(28)** |
| **Total non-current provisions** | **130** | **777** |

| | Onerous contract Rm | Environ-mental remediation Rm | Leave pay benefits Rm | Post-retirement medical aid benefits Rm | Restruc-turing Rm | Total Rm |
|---|---|---|---|---|---|---|
| **COMPANY** | | | | | | |
| **For the year ended 31 December 2005** | | | | | | |
| At beginning of year | 331 | 717 | 240 | 18 | 69 | 1 375 |
| Charge to income statement | 16 | 211 | 72 | (5) | 27 | 321 |
| Additional provisions | 100 | 169 | 88 | | 54 | 411 |
| Interest adjustment | 97 | 42 | | | | 139 |
| Unused amounts reversed | (181) | | (16) | (5) | (27) | (229) |
| Utilised during year | (69) | (8) | (62) | (4) | (87) | (230) |
| At end of year | 278 | 920 | 250 | 9 | 9 | 1 466 |
| Current portion included in current liabilities | (75) | (11) | (89) | (4) | (9) | (188) |
| **Total non-current provisions** | 203 | 909 | 161 | 5 | | 1 278 |

| | Onerous contracts Rm | Leave pay benefits Rm | Post-retirement medical aid benefits Rm | Restructuring Rm | Other Rm | Total Rm |
|---|---|---|---|---|---|---|
| | 278 | 250 | 9 | 9 | | 1 466 |
| | 100 | 65 | | | 73 | 320 |
| | 14 | 65 | | | 73 | 219 |
| | 86 | | | | | 101 |
| | (66) | (72) | (1) | (9) | | (199) |
| | 312 | 243 | 8 | | 73 | 1 587 |
| | (66) | (85) | (1) | | (73) | (269) |
| | 246 | 158 | 7 | | | 1 318 |

29. PROVISIONS continued

### Asset Retirement Obligation (ARO) and environmental remediation provision

The group embarked on an improvement project that resulted in its environmental rehabilitation provision being sub-divided into Asset Retirement Obligations (AROs) and environmental remediation obligations. This better reflects the economic substance of the environmental rehabilitation obligations.

ARO represent the directors' best estimate of the present value of the measurable future outflow of economic benefits that will be required to retire plant and equipment. Correspondingly, the present value of the cost of retirement is capitalised as a component of property, plant and equipment, in the form of an ARO-asset. The originated ARO-assets, their consequential depreciation and the financial impact thereof is detailed in note 15.

Remediation obligations are those that result from other than the normal operation of property, plant and equipment. These obligations represent the cost of remedial action to clean-up and secure the site. The associated costs represent the directors' best estimate of the present value of the reliably determinable future outflow of economic benefits that will be required to remediate a site. The term of the obligation assessment varies according to the site. The maximum assessment term is 20 years. The long-term average escalation factor applied to the current cash flow estimates is 5% (December 2005: 5%). The future cash outflow is discounted at a credit-adjusted rate of 9,3% (December 2005: 8,5%). The derivation of the discount rate is detailed in note 9.

### Onerous contracts provision

The provision represents an onerous lease contract embedded in a long-term, take-or-pay gas supply contract. The unavoidability of the cost arose upon the 1997 de-commissioning of the steel making facilities at Pretoria Steel. The provision represents the present value of the future lease payments that the group is presently obligated to make under the non-cancellable onerous operating lease. Net cash outflow for the year amounted to R66 million (December 2005: R69 million). The unexpired term of the contract is 13 years. The long-term average escalation factor applied to the current cash flow estimates is 5% (December 2005: 5%). The future cash outflow is discounted at a credit-adjusted rate of 9,3% (December 2005: 8,5%). The derivation of the discount rate is detailed in note 9.

### Leave pay benefits

In terms of the group policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle. The obligation is reviewed annually.

### Post-retirement medical benefits

The group recognises a liability relating to future medical aid for certain early retirees. The obligation represents a present value amount, which is actuarially valued on an annual basis. Any surplus or deficit arising from the valuation is recognised in the income statement (note 35).

### Restructuring

The liability represents the provision for a reduction in personnel in terms of the voluntary retrenchment program for the whole group. Provision is made on a piecemeal basis, only for those voluntary retrenchment obligations supported by a formally approved plan.

### Other

#### Taxation dispute – Business Assistance Agreement

In 2005 the South African Revenue Service (SARS) disallowed the claims for the payments made by the group in terms of the Business Assistance Agreement (BAA) for the 2003 financial year. In the current reporting period, the payments for the 2004 financial year were also disallowed.

The company objected to the assessments received. Management, in consultation with senior counsel and taxation lawyers, maintains its position that the aforementioned payments are revenue in nature and are hence deductible. The full amount at risk is R403 million based on the tax deduction claimed on the BAA remuneration of R613 million (2003 financial year) and R731 million (2004 financial year).

During the reporting period, the company undertook to settle the matter through SARS's Alternative Dispute Resolution (ADR), the objective being to fast-track the dispute resolution in order to remove the uncertainty which protracted court hearings would bring to bear on the group's future earnings and cash flow forecasts.

The ADR facilitation was held on 1 December 2006, at which a positive account was given of the company's position. Based upon the discussions and proceedings at the ADR, 20% of the amount at risk was recognised as a provision.

The difference between the amount provided and the amount at risk, being R323 million, is disclosed as a contingent liability (note 37).

#### General export incentive scheme

Five years ago the Department of Trade and Industry alleged non-compliance with rules of General Export Incentive Scheme (GEIS). The case has been dormant in the intervening period but recently notice was received indicating that the government wishes to proceed with the matter. The maximum claim is R100 million, excluding interest. While the company is confident that no contravention has occurred, the parties are currently investigating means to settle the matter amicably in order to remove the uncertainty which protracted court hearings would bring to bear on the group's future earnings and cash flow forecasts. An amount of R8 million has been accrued. The difference between the amount accrued and the amount of the claim is disclosed as a contingent liability (note 37).

30. DEFERRED TAXATION

Deferred tax assets/(liabilities) arise from the following:

| | Cash flow hedges Rm | Property, plant, equipment and intangible assets Rm | Employee cost Rm |
|---|---|---|---|
| GROUP | | | |
| **For the year ended 31 December 2006** | | | |
| **Temporary differences** | | | |
| At beginning of year | | **3 107** | **(61)** |
| Charged to income | **(2)** | **(45)** | **(15)** |
| **At end of year** | **(2)** | **3 062** | **(76)** |
| GROUP | | | |
| **For the year ended 31 December 2005** | | | |
| **Temporary differences** | | | |
| At beginning of year | | 3 077 | (72) |
| Recognised leased assets in terms of IFRIC 4 at 1 January 2005 | | 199 | |
| Charged to income | | (61) | 9 |
| Changes in tax rate | | (108) | 2 |
| **At end of year** | | 3 107 | (61) |
| COMPANY | | | |
| **For the year ended 31 December 2006** | | | |
| **Temporary differences** | | | |
| At beginning of year | | **1 412** | **(78)** |
| Charged to income | **(2)** | **58** | **2** |
| **At end of year** | **(2)** | **1 470** | **(76)** |
| COMPANY | | | |
| **For the year ended 31 December 2005** | | | |
| **Temporary differences** | | | |
| At beginning of year | | 1 249 | (78) |
| Recognised leased assets in terms of IFRIC 4 at 1 January 2005 | | 161 | |
| Charged to income | | 49 | (2) |
| Changes in tax rate | | (47) | 2 |
| **At end of year** | | 1 412 | (78) |

| Temporary differences | | | | | Unused tax losses and credits | |
|---|---|---|---|---|---|---|
| Available-for-sale assets Rm | Provisions Rm | Doubtful debts Rm | Finance lease obligations Rm | Other Rm | Tax losses Rm | Total Rm |
| | **(3)** | **(67)** | **(196)** | **(6)** | **(767)** | **2 007** |
| **1** | **(42)** | **60** | **24** | **(8)** | **375** | **348** |
| **1** | **(45)** | **(7)** | **(172)** | **(14)** | **(392)** | **2 355** |
| | (161) | (10) | | 3 | (1 130) | 1 707 |
| | | | (219) | (5) | | (25) |
| | 153 | (57) | 16 | (4) | 325 | 381 |
| | 5 | | 7 | | 38 | (56) |
| | (3) | (67) | (196) | (6) | (767) | 2 007 |
| | **(43)** | **(6)** | **(145)** | **(4)** | | **1 136** |
| **1** | | **1** | **23** | **(1)** | | **82** |
| **1** | **(43)** | **(5)** | **(122)** | **(5)** | | **1 218** |
| | (148) | (7) | | 3 | | 1 019 |
| | | | (166) | (4) | | (9) |
| | 100 | 1 | 15 | (3) | | 160 |
| | 5 | | 6 | | | (34) |
| | (43) | (6) | (145) | (4) | | 1 136 |

| | GROUP 2006 Rm | GROUP 2005 Rm | COMPANY 2006 Rm | COMPANY 2005 Rm |
|---|---|---|---|---|
| **31. TRADE AND OTHER PAYABLES** | | | | |
| Trade | 2 162 | 1 285 | 1 814 | 1 159 |
| Other | 879 | 1 352 | 711 | 733 |
| | 3 041 | 2 637 | 2 525 | 1 892 |
| **32. NOTES TO THE CASH FLOW STATEMENT** | | | | |
| 32.1 **Cash generated from operations** | | | | |
| Profit from operations | 5 833 | 6 894 | 4 803 | 6 019 |
| Adjusted for non-cash movements | | | | |
| – Depreciation and amortisation | 1 166 | 1 192 | 772 | 794 |
| – Accumulated depreciation on asset retirement obligations | 55 | | 55 | |
| – Share option costs | 17 | 8 | 17 | 8 |
| – Goodwill impairment | | 11 | | |
| – Movements in provisions | 16 | 190 | 12 | 183 |
| – Provision for net realisable value of inventories | 22 | 12 | 22 | 12 |
| – Reconditionable spares usage | 23 | 21 | 19 | 21 |
| – Net deficit on disposal or scrapping of property, plant and equipment | 48 | 20 | 46 | 20 |
| Working capital movements | | | | |
| – Increase in inventories | (890) | (817) | (835) | (856) |
| – (Increase)/decrease in trade and other receivables | (347) | 752 | (222) | 531 |
| – Increase in trade and other payables | 404 | 354 | 633 | 61 |
| – Utilisation of provisions | (200) | (230) | (199) | (230) |
| | 6 147 | 8 407 | 5 123 | 6 563 |

| | GROUP 2006 Rm | GROUP 2005 Rm | COMPANY 2006 Rm | COMPANY 2005 Rm |
|---|---|---|---|---|
| **32. NOTES TO THE CASH FLOW STATEMENT** continued | | | | |
| **32.2 Dividends paid** | | | | |
| Unpaid at beginning of year | | (1 337) | | (1 337) |
| Charged to equity | **(1 261)** | (1 516) | **(1 261)** | (1 516) |
| | **(1 261)** | (2 853) | **(1 261)** | (2 853) |
| **32.3 Normal taxation** | | | | |
| Normal taxation payable/(recoverable) at beginning of year | **116** | (857) | **136** | (822) |
| Amounts charged to the income statements | **(1 597)**[1] | (2 004) | **(1 539)** | (1 978) |
| Normal taxation recoverable at end of year | **(179)** | (116) | **(234)** | (136) |
| | **(1 660)** | (2 977) | **(1 637)** | (2 936) |
| **32.4 Investment to maintain operations** | | | | |
| Replacement of property, plant and equipment | **(749)** | (800) | **(672)** | (722) |
| Environmental | **(104)** | (350) | **(101)** | (339) |
| Reconditionable spares | **(57)** | (100) | **(54)** | (74) |
| | **(910)** | (1 250) | **(827)** | (1 135) |
| **32.5 Investment to expand operations** | | | | |
| Property, plant and equipment for expansion and new technology | **(536)** | (358) | **(525)** | (327) |
| | **(536)** | (358) | **(525)** | (327) |
| **Total capital expenditure** | **(1 446)** | (1 608) | **(1 352)** | (1 462) |

[1] *An amount of R65 million is included for the BAA dispute*

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

33.1 **Financial risk factors**

The group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the board of directors. The joint venture entities have their own treasury functions that co-ordinate with Group Treasury, as appropriate. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investment of excess liquidity.

33.1.1 Market risk

*33.1.1.1 Foreign exchange risk*

Foreign exchange risk may arise when future commercial transactions, recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar (USD) and Euro. Foreign exchange risk arises from future commercial transactions, and recognised assets and liabilities.

Management has set up a policy to manage their foreign exchange risk against its functional currency. The various group companies each have policies tailored to their own needs. The policy takes cognisance of the South African Reserve Bank's 180-day rule on the repatriation of off-shore funds.

To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the group use forward contracts, bought options and zero-cost collar options, transacted with external financial counterparties.

The group does not designate for hedge accounting purposes instruments economically hedging capital imports within cash flow hedging relationships due to the low volumes of such instruments that are transacted. The majority of capital imports are hedged economically using un-repatriated, off-shore foreign currency balances. During the year limited economic hedging of trade imports occurred as the same strategy adopted when hedging capital imports is followed. None of the instruments that were transacted were designated within cash flow hedging relationships. Financial instruments not designated as cash flow hedges are classified as financial assets carried at Fair Value Through Profit and Loss (FVTPL).

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

33.1 **Financial risk factors** continued

33.1.1 Market risk continued

*33.1.1.1 Foreign exchange risk* continued

The average hedged rates on the outstanding instruments are:

| | 2006 | 2005 |
|---|---|---|
| **Foreign currency** | | |
| Capital imports | | |
| – USD | 7,12 | 6,94 |
| – Euro | 9,79 | 8,44 |
| – GBP | | 12,47 |
| – CHF | | 0,20 |
| Trade imports | | |
| – USD | 7,08 | |
| – Euro | 9,20 | |
| – GBP | 13,73 | |

USD 170 million of export sale revenue was hedged using zero cost collars during the year ended 31 December 2006. These instruments were designated within cash flow hedging relationships. At 31 December 2006, all of these instruments had matured and the resulting gains and losses had been transferred from equity to profit or loss.

Foreign exchange contracts outstanding at reporting date

| | Notional amount in foreign currency m | Equivalent notional amount in ZAR[1] Rm | Fair value through profit and loss Rm | Deferred to equity Rm |
|---|---|---|---|---|
| **For the year ended 31 December 2006** | | | | |
| *Financial assets carried at Fair Value Through Profit and Loss (FVTPL)* | | | | |
| *Trade import purchase[3] contracts* | | | | |
| USD | 21 | 145 | (7) | |
| Euro | [2] | 4 | | |
| GBP | [2] | | | |
| | 21 | 149 | (7) | |

[1]*Nominal amount in foreign currency translated at year end closing rate*

[2]*Rounding to zero due to the use of a numeric reporting scaling factor of one million*

[3]*Purchase contract: Purchase foreign currency, sell ZAR. Sales contract: Sell foreign currency, purchase ZAR*

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

33.1 **Financial risk factors** continued

33.1.1 Market risk continued

*33.1.1.1 Foreign exchange risk* continued

Foreign exchange contracts

| | Notional amount in foreign currency m | Equivalent notional amount in ZAR[1] Rm | Fair value through profit and loss Rm | Deferred to equity Rm |
|---|---|---|---|---|
| Financial assets carried at Fair Value Through Profit and Loss (FVTPL) | | | | |
| *Capital imports* | | | | |
| USD | | | | |
| – Sales contracts[3] | 2 | 13 | 1 | |
| Euro | | | | |
| – Sales contracts[3] | 13 | 112 | (2) | |
| – Purchase contracts[3] | 2 | 22 | | |
| | 103 | (1) | | |
| **Total** | | 252 | (8) | |
| **For the year ended 31 December 2005** | | | | |
| Derivatives designated and effective as cash flow hedging instruments carried at fair value | | | | |
| *Capital imports purchase[3] contracts* | | | | |
| USD | 7 | 52 | | (1) |
| Euro | 9 | 75 | | (1) |
| CHF | 1 | 7 | | |
| GBP | 2 | 18 | | |
| **Total** | | 152 | | (2) |

*[1]Nominal amount in foreign currency translated at year end closing rate*

*[2]Rounding to zero due to the use of a numeric reporting scaling factor of one million*

*[3]Purchase contract: Purchase foreign currency, sell ZAR. Sales contract: Sell foreign currency, purchase ZAR*

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

33.1 **Financial risk factors** continued

33.1.1 Market risk continued

*33.1.1.2 Price risk*

The group is exposed to commodity price risk. To manage its price risk arising from certain commodity purchases, the group may utilise forward contracts, bought options and zero-cost collar options, transacted with external financial counterparties, or embedded derivatives contained within procurement host contracts.

**Base metals**

Base metals, being zinc, aluminium, aluminium alloy, nickel, tin and copper are hedged using purchased over-the-counter cash-settled derivatives. The derivatives are transacted with reputable, credit-worthy, large retail, merchant or investment banks.

The risk management objective is to reduce the variability in the USD cash flows expected to be paid on the forecasted purchase of the base metal. The strategy is to use the USD cash flow received or paid from settlement of a London Metal Exchange (LME)-based derivative that is hedging the forecasted transaction, to offset the variability in the USD cash flows on the forecasted purchase of the base metal.

The relationships are designed on one-to-one and not a portfolio basis due to differences in the pricing terms of the various metals purchased by the various operating units within the group.

Certain of the instruments are not designated as cash flow hedges as the volumes involved are too low to merit designation within a cash flow hedging relationship. These instruments as classified as financial assets carried at Fair Value Through Profit and Loss (FVTPL).

The average hedged rates on the outstanding instruments are:

| | 2006<br>USD/tonnes | 2005<br>USD/tonnes |
|---|---|---|
| **Base metal** | | |
| Aluminium | 2 578 | 2 278 |
| Aluminium alloy | 2 305 | |
| Nickel | 25 887 | 8 100 |
| Zinc | 3 504 | 1 876 |
| Tin | 9 317 | 6 552 |
| Copper | 7 139 | |

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

33.1 **Financial risk factors** continued

33.1.1 Market risk continued

*33.1.1.2 Price risk* continued

Base metal forward contracts

| | Tonnes hedged | Equivalent notional amount in ZAR[1] USDm | Fair Value Through Profit and Loss Rm | Deferred to equity Rm |
|---|---|---|---|---|
| **For the year ended 31 December 2006** | | | | |
| Derivatives designated and effective as cash flow hedging instruments carried at fair value | | | | |
| Tin | **112** | **1** | | **2** |
| Zinc | **2 837** | **10** | | **12** |
| Aluminium | **1 247** | **3** | | **2** |
| Nickel | **6** | [2] | | [2] |
| | **4 202** | **14** | | **16** |
| Financial assets carried at Fair Value Through Profit and Loss (FVTPL) | | | | |
| – Instruments not designated in cash flow hedging relationships | | | | |
| – Aluminium alloy | **1 840** | **4** | [2] | |
| – Copper | **21** | [2] | [2] | |
| – Nickel | **12** | [2] | **2** | |
| | **1 873** | **4** | **2** | |
| – Ineffective cash flow hedging instruments | | | | |
| – Aluminium | **520** | **1** | **1** | |
| – Tin | **35** | **1** | [2] | |
| – Nickel | **4** | | | |
| | **559** | **2** | **1** | |
| **Total** | **6 634** | **20** | **3** | **16** |
| **For the year ended 31 December 2005** | | | | |
| Derivatives designated and effective as cash flow hedging instruments carried at fair value | | | | |
| Tin | 935 | 5 | | 2 |
| Zinc | 1 000 | 1 | | 4 |
| Aluminium | 425 | 1 | | 1 |
| Nickel | 264 | 3 | | 7 |
| **Total** | 2 624 | 10 | | 14 |

*[1]Nominal amount in foreign currency translated at year-end closing rate*

*[2]Rounding to zero due to the use of a numeric reporting scaling factor of one million*

*[3]Purchase contract: Purchase foreign currency, sell ZAR. Sales contract: Sell foreign currency, purchase ZAR*

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

33.1 **Financial risk factors** continued

33.1.1 Market risk continued

*33.1.1.2 Price risk* continued

| | 2006 Rm | 2005 Rm |
|---|---|---|
| The composition of the cash flow hedge accounting reserve is as follows: | | |
| Cumulative unrealised fair value gains | 16 | 12 |
| Cumulative realised fair value gains | | 46 |
| Cumulative realised fair value losses released to profit or loss | | (27) |
| | 35 | 12 |
| Income tax thereon | (5) | |
| **Total** | 30 | 12 |
| The realised gains deferred to the reserve will be fully released by May 2007 (December 2005: January 2006) | | |
| The composition of favourable and unfavourable derivative instrument contracts at 31 December 2006 was as follows: | | |
| Base metal forward contracts | | |
| – Favourable | 18 | 14 |
| Capital import foreign exchange contracts | | |
| – Favourable | 1 | |
| – Unfavourable | (2) | |
| Trade import foreign exchange contracts | | |
| – Unfavourable | (7) | (13) |

**Embedded derivatives**

The group enters into contractual arrangements to manage price risk exposures from those commodities and materials that cannot be hedged using stand-alone derivative instruments. These contracts for energy, coking coal and refractory materials host embedded derivatives. The embedded derivatives consist of pricing forwards and caps.

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

33.1 **Financial risk factors** continued

33.1.1 Market risk continued

*33.1.1.2* *Price risk* continued

Embedded derivative instruments

| | Number of instruments | Active hedging values | Expiry date(s) | Fair value Rm | Recognised fair value gains/(losses) Rm |
|---|---|---|---|---|---|
| **31 December 2006** | | | | | |
| Energy – pricing cap | **1** | SA PPI, Steel Industry Index, US PPI, Heavy Fuel Oil Index | [1] | **199** | **134** |
| Raw material – pricing forward | **1** | SA PPI | Dec 08 | **29** | **(8)** |
| Refractory services – pricing forward | **1** | Exchange rate[2] | Dec 09 | **23** | **19** |
| **Total** | | | | **251** | **145** |
| **For the year ended 31 December 2005** | | | | | |
| Energy – pricing cap | 1 | SA PPI, Steel Industry Index, US PPI, Heavy Fuel Oil Index | [1] | 65 | 65 |
| Raw material – pricing forward | 3 | SA PPI | Jun 06, | | |
| | | Jun 08 | 37 | 37 | |
| Refractory services – pricing forward | 1 | Exchange rate[2] | Dec 09 | 4 | 4 |
| **Total** | | | | 106 | 106 |

[1]*No expiry date defined in contract*

[2]*USD: ZAR*

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

33.1 **Financial risk factors** continued

33.1.1 Market risk continued

*33.1.1.2 Price risk* continued

Energy – pricing cap

The capped pricing component of the embedded derivative was modelled on an intrinsic value basis. The value of the derivative is the difference between the expected market-based cash flows and expected contract-based cash flows.

As market prices are a factor of industry segment and purchased gas volume, management has used its best estimate to determine market-based prices applicable to customers in the same industry as the company, with similar purchased gas volumes.

Raw material – pricing forward

The forward contract within the embedded derivative was solved for a fair value of zero at inception. Management's estimated increases in SA PPI at inception were applied to the estimated volumes for the duration of the contract at inception. The change in the fair value of the forward contract was determined by applying management's revised increase estimations as at subsequent valuation dates to the volume estimations, and calculating the difference between the initial estimated cash flows and the revised estimates.

Refractory services – pricing forward

The forward contract price within the embedded derivative was solved for a fair value of zero at inception. Foreign currency forward rates as at inception were estimated from observable interest rate differentials. These, together with management's expectation of increases in the relevant price components (denominated in foreign currency) were applied to management's estimated volumes for the duration of the contract at inception. The change in the fair value of the forward contract was determined by applying the revised estimated foreign currency forward rates (calculated from observable interest rate differentials), as well as management's revised component increase expectations as at subsequent valuation dates to the volume estimations, and calculating the difference between the initial estimated cash flows and the revised estimates.

*33.1.1.3 Cash flow and fair value interest rate risk*

Finance lease obligations are based upon imputed fixed interest rates on origination of the arrangement. The group has no significant stand alone interest-bearing borrowings, and thus its income and operating cash flows are substantially independent of changes in market interest rates.

The group's interest rate risk arises primarily from its cash and cash equivalents on hand. At 31 December 2006 the balance amounted to R7 750 million (December 2005: R5 219 million) and consisted of the following currency holdings:

| Cash position and holdings | **2006** m | 2005 m |
|---|---|---|
| ZAR | **4 339** | 948 |
| USD | **468** | 672 |
| Euro | **15** | 4 |

The cash position is primarily invested in overnight and short-term money market deposit accounts. For the ZAR denominated balances, no long-term fixed deposit investments are in place in order to take advantage of the expected higher interest rates in 2007. USD denominated short-term deposit positions are maintained in order to allow for investment flexibility in the year ahead.

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

33.1 **Financial risk factors** continued

33.1.2 Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, as well as credit exposures to customers, including outstanding receivables and committed transactions.

Customers are independently rated. Independent rating agencies used are Credit Inform (Proprietary) Limited for domestic customers and Coface Group for foreign customers. Otherwise, if there is no independent rating, the internal 'credit risk management' department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board of directors. The utilisation of credit limits are regularly monitored.

The table below shows the credit limit and balance of the top three customers at the balance sheet date:

| Customer | Rating | 2006 Credit limit Rm | 2006 Balance Rm | 2005 Credit limit Rm | 2005 Balance Rm |
|---|---|---|---|---|---|
| Macsteel Services (domestic sales) | A | 823 | 245 | 823 | 164 |
| Trident Steel (domestic sales) | A | 399 | 191 | 321 | 178 |
| Duferco (export sales) | A | 433 | 185 | 433 | 121 |

*Credit limit and Balance amounts are VAT inclusive*

Detail of credit risk exposure on an industry and geographical basis:

| | 2006 % | 2005 % |
|---|---|---|
| **By industry** | | |
| Manufacturing | 48 | 32 |
| Merchants | 34 | 47 |
| Structural metal | 9 | 11 |
| Food and beverage | 6 | 9 |
| Other | 3 | 1 |
| | 100 | 100 |
| **By geographical area** | | |
| South Africa | 98 | 79 |
| Asia | 0,5 | 7 |
| Europe | 0,5 | 3 |
| Other | 1 | 11 |
| | 100 | 100 |

For banks and financial institutions, only independently rated parties with a minimum international rating of F3 for short-term business and BBB for long-term business are accepted.

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

33.1 **Financial risk factors** continued

33.1.3 Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the group's liquidity reserve on the basis of expected cash flow. The borrowing capacity of the group is as follows:

| | 2006 Rm | 2005 Rm |
|---|---|---|
| Borrowing capacity is determined by the directors in terms of the Articles of Association, namely 100% of shareholders' equity | 22 943 | 19 451 |
| Less total borrowings | (666) | (766) |
| **Unutilised borrowing capacity** | 22 277 | 18 685 |

33.2 **Capital risk management**

The group's objectives when managing capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The group sets the amount of capital in proportion to risk. The group manages the capital structure and makes adjustments to it in light of changes in economic conditions within the domestic and global steel industry and the risk characteristics of the underlying assets.

Consistently with others in the industry, the group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital.

Net debt is total interest-bearing borrowings including finance lease obligations less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. stated share capital, retained earnings and non-distributable reserves) other than amounts recognised in equity relating to cash flow hedges.

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

### 33.3 Maturity profile of financial instruments of the group

The maturity profiles of financial assets and liabilities at 31 December 2006 and 31 December 2005 are summarised as follows:

| | Current to 1 year Rm | 1-5 years Rm | +5 years Rm | Total Rm |
|---|---|---|---|---|
| **For the year ended 31 December 2006** | | | | |
| **Non-current assets** | | | | |
| Non-current financial assets | | **134** | | **134** |
| Non-current loan receivables | | **4** | | **4** |
| **Current assets** | | | | |
| Trade and other receivables | **2 088** | | | **2 088** |
| Current financial assets | **128** | | | **128** |
| Cash and cash equivalents | **7 750** | | | **7 750** |
| **Non-current liabilities** | | | | |
| Interest-bearing borrowings | | **(41)** | **(20)** | **(61)** |
| Finance lease obligations | | **(285)** | **(217)** | **(502)** |
| **Current liabilities** | | | | |
| Trade and other payables | **(3 041)** | | | **(3 041)** |
| Interest-bearing borrowings | **(10)** | | | **(10)** |
| Current finance lease obligations | **(93)** | | | **(93)** |
| **For the year ended 31 December 2005** | | | | |
| **Non-current assets** | | | | |
| Non-current financial assets | | 61 | | 61 |
| Non-current loan receivables | | 10 | | 10 |
| **Current assets** | | | | |
| Trade and other receivables | 1 732 | | | 1 732 |
| Current financial assets | 46 | | | 46 |
| Cash and cash equivalents | 5 219 | | | 5 219 |
| **Non-current liabilities** | | | | |
| Interest-bearing borrowings | | (41) | (30) | (71) |
| Finance lease obligations | | (342) | (254) | (596) |
| **Current liabilities** | | | | |
| Trade and other payables | (2 637) | | | (2 637) |
| Interest-bearing borrowings | (10) | | | (10) |
| Current finance lease obligations | (89) | | | (89) |

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

### 33.4 Fair value estimation

The fair value of base metal over-the-counter derivatives is based on quoted market prices at the balance sheet date as confirmed by marked-to-market valuations provided by the counterparty bank.

Option contracts are valued using a Black-Scholes-Merton option model; the outcomes of which are assessed against the values provided by the counterparty bank.

The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables and payables.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

The carrying amounts and fair values of the group's financial assets and liabilities are stated below:

| | Carrying value 2006 Rm | Fair value 2006 Rm | Carrying value 2005 Rm | Fair value 2005 Rm |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Non-current financial assets | 134 | 134 | 61 | 61 |
| Non-current loan receivables | 4 | 4 | 10 | 10 |
| **Current assets** | | | | |
| Trade and other receivables | 2 088 | 2 088 | 1 732 | 1 732 |
| Current financial assets | 128 | 128 | 46 | 46 |
| Cash and cash equivalents | 7 750 | 7 750 | 5 219 | 5 219 |
| **Non-current liabilities** | | | | |
| Non-current interest-bearing borrowings | (61) | (63) | (71) | (77) |
| Non-current finance lease obligations | (502) | (516) | (596) | (607) |
| **Current liabilities** | | | | |
| Trade and other payables | (3 041) | (3 041) | (2 637) | (2 637) |
| Current interest-bearing borrowings | (10) | (19) | (10) | (21) |
| Current finance lease obligation | (93) | (130) | (89) | (132) |

The higher fair value relative to carrying amount of interest-bearing borrowings and finance lease obligations reflect the lower reporting date credit adjusted interest rates relative to the contracted and imputed rates.

The fair value represents the capital amount which could be borrowed if the arrangements were refunded at the reporting date.

34. RELATED PARTY TRANSACTIONS

During the year the company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase transactions with joint ventures and other entities within the Arcelor Mittal Group. These transactions occurred under terms that are no less favourable to the company than those arranged with third parties.

### Companies within Arcelor Mittal Group

The company purchased products to the value of R555 million (December 2005: R9 million) from other companies in the group.

The outstanding balances at year-end are as follows:

- Included in trade and other receivables (note 23) R15 million (December 2005: R2 million); and
- Included in trade and other payables (note 31) R314 million (December 2005: R472 million).

### Joint ventures

Details of investments in joint ventures are disclosed in Annexure 1 whilst income, after eliminating unrealised profits, is disclosed in note 17. Interest income from joint ventures of R7 million (December 2005: R5 million) is included in investment income (note 10).

The group purchased goods and services to the value of R75 million (December 2005: Rnil) from and sold goods to the value of R5 971 million (December 2005: R6 894 million) to joint ventures.

The outstanding balances at year-end are as follows:

- Included in trade and other receivables (note 23) R187 million (December 2005: R341 million);
- Included in trade and other payables (note 31) R5 million (December 2005: Rnil); and
- Included in the carrying value of joint ventures (note 17) are long-term loans of R10 million (December 2005: R10 million).

### Subsidiaries

Details of income from, and investments in subsidiaries are disclosed in notes 10 and 18 respectively, and Annexure 2.

### Directors

Executive directors are defined as key senior management. Details relating to directors' emoluments and shareholdings (including options) in the company are disclosed in notes 39.1 and 39.2 respectively.

### Senior employees

Details relating to option and share transactions are disclosed in note 36.

### Shareholders

The principal shareholders of the company are detailed in the 'Analysis of Shareholders' schedule on page 170.

### Contingent liabilities

Details are disclosed in note 37.

### Management fee

Mittal Steel South Africa received a management fee of R190 million (December 2005: R188 million) from Saldanha plant for the Mittal Steel South Africa employees that work at Saldanha plant (note 7).

35. POST-EMPLOYMENT BENEFITS

**Pensions**

Independent funds provide pension and other benefits for all permanent employees and their dependants. At the end of the financial year the following funds were in existence:

- Mittal Selector Pension Fund and Mittal Selector Provident Fund, both operating as defined contribution funds;
- Iscor Employees' Provident Fund, operating as a defined contribution fund;
- Mittal Pension Fund, operating as a defined benefit fund. This fund is closed to new entrants; and
- Iscor Retirement Fund, operating as a defined benefit fund. This fund is closed to new entrants.

The assets of these plans are held separately from those of the group in funds under the control of trustees.

All funds are governed by the South African Pension Funds Act of 1956.

Defined contribution funds

Membership of each fund at 31 December 2006 and employer contributions to each fund for the 2006 calendar year were as follows:

| | Working members | | Employer contributions | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | | | **Rm** | Rm |
| Mittal Selector Pension and Provident Funds | **4 679** | 5 274 | **75** | 78 |
| Iscor Employees' Provident Fund | **3 940** | 4 379 | **29** | 29 |
| | | | **104** | 107 |

Members pay a contribution of 7%, with the employer's contribution of 10% being expensed as incurred.

Due to the nature of these funds the accrued liabilities by definition equate to the total assets of the fund.

Defined benefit funds

Funds are valued actuarially at intervals of not more than three years. At the last statutory valuation of the funds within the group (Mittal Pension Fund at 31 December 2004 and the Iscor Retirement Fund at 31 December 2005) the actuaries were of the opinion that the funds were adequately funded.

No material transactions or other material changes in circumstances have occurred since the last valuations necessitating additional bridging valuations between financial year-ends of the funds and that of the group.

The contributions made relating to these funds are accounted for under the defined contribution principles due to the closed nature of these funds.

35. POST-EMPLOYMENT BENEFITS continued

Membership of each fund at 31 December 2006 and employer contributions to each fund for the 2006 calendar year were as follows:

| | Pensioner members | | Working members | | Employer contributions | |
|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 Rm | 2005 Rm |
| Mittal Pension Fund | 9 362 | 9 682 | 63 | 68 | 1 | 1 |
| Iscor Retirement Fund | 1 604 | 1 718 | | | | |
| | | | | | 1 | 1 |

The above figures include previous employees from Iscor Limited, Kumba Iron Ore Limited and EXXARO Resources Limited.

Plans are in progress to transfer the current working members to other funds.

Principal actuarial assumptions (expressed as weighted averages) at the last statutory valuations were as follows:

| | Mittal Pension Fund 31 December 2004 % | Iscor Retirement Fund 31 December 2005 % |
|---|---|---|
| Pre-retirement discount rate | 10,0 | 10,0 |
| Post-retirement discount rate | 5,0 | 4,5 |
| Expected real after tax return on plan assets | 1,5 | N/a |
| Average pension increases | 6,5 | 7,5 |

### Funded status

The funded status of the two defined benefit funds (Mittal Pension Fund at 31 December 2004 and Iscor Retirement Fund at 31 December 2005) was as follows:

| | Defined benefit funds | |
|---|---|---|
| | Mittal Pension Fund 31 December 2004 Rm | Iscor Retirement Fund 31 December 2005 Rm |
| Fair value of plan assets | 6 213 | 350 |
| Present value of funded obligation | (6 213) | (350) |

The pension plan assets consist primarily of equity (local and off-shore) and interest-bearing stock.

### Medical benefits

The group contributes to medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R76 million (December 2005: R76 million). On the basis of current practice, which is reviewed annually, the actuarially determined present value of post-retirement medical aid obligations has been provided in note 29. This obligation is unfunded. The group has no further post-retirement medical aid obligations for current or retired employees. Details of the movement during the period in the net liability are shown in note 29.

36. SHARE-BASED PAYMENTS

The company operates the Mittal Steel South Africa Management Share Trust, consisting of an option, a purchase, a deferred purchase and a paid-up share plan for the benefit of the company’s senior management, including executive directors.

The transaction administration with participants is outsourced to service provider, Compensation Technologies (Proprietary) Limited.

### Scheme types

‘Legacy Option Plan’ (25 October 1989 to 30 April 2002)

Shares are offered at market price on option date and are released in five equal annual tranches commencing on the second anniversary of the offer date and expire after nine years. This plan was closed as from 30 April 2002 and will run out once all rights have been exercised or time lapsed.

‘Legacy Deferred Purchase Plan’

Shares are offered at market price and, if taken up in terms of the scheme, are released unless decided otherwise by the directors, in five equal annual tranches commencing on the second anniversary of the offer date and expire after nine years. This plan was closed as from 7 May 2002 and will continue up to the expiry date, on which date the participants should pay for the shares.

‘Legacy Loan Purchase Plan’

To facilitate the Iscor Limited unbundling, participants were offered a once-off choice to transfer all offers accepted up to November 2001 to the Loan Plan. The original vesting rules depending on date of the Mittal Steel South Africa offer continue to apply as does the expiry date on which the loan should be paid up.

‘30:30:40 Option Plan’ (effective 7 May 2002 to 11 December 2005)

Share options are offered at market price and are released in three annual tranches of 30%, 30% and 40% respectively, commencing on the first anniversary of the offer date and expiring after six years. This plan was closed as from 11 December 2005 and will run out once all rights have been exercised or time lapsed.

‘$33^{1}/_{3}$: $33^{1}/_{3}$: $33^{2}/_{5}$ Mittal – Type Option Scheme’ (effective from 12 December 2005 to present)

Share options are offered at market price and are released in three annual tranches of 33,3%, 33,3% and 33,4% respectively, commencing on the first anniversary of the offer date and expiring after ten years. This is an open plan.

The options schemes are equity-settled as each share option converts into one ordinary share of Mittal Steel South Africa Limited on exercise. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is calculated in accordance with the employees’ role-grading within the company as approved by the remuneration committee of Mittal Steel South Africa Limited and as incorporated within the trust deed of the Management Share Trust. Upon resignation the share options lapse immediately. Upon death, the options lapse within six months thereafter.

### Existing share distribution and shares available for future distribution

A total of 44,6 million (December 2005: 44,6 million) shares of the company, representing 10% of the issued ordinary shares, has been approved and allocated by shareholders for purposes of the scheme. Of the total of 44,6 million shares, 41,4 million (December 2005: 42,5 million) shares are available for future offers to participants, while 3,1 million (December 2005: 2,1 million) shares have been distributed to participants via the option, loan purchase and paid up, or deferred purchase plan arrangements.

36. SHARE-BASED PAYMENTS continued

Details are as follows:

| | Million |
|---|---|
| Number of shares available for utilisation in terms of the Mittal Steel South Africa Management Share Trust as at 1 January 2006 | 42,5 |
| Add: Share releases, forfeitures and resignations | 1,1 |
| Less: Share offers | (2,2) |
| **Number of shares available for future utilisation, as at 31 December 2006** | **41,4** |

At 31 December 2006 the company's loan owing by Mittal Steel South Africa Management Share Trust amounted to R103 million (December 2005: R60 million).

| | Options | | Loan purchase and paid up/ deferred purchase plan | |
|---|---|---|---|---|
| | 2006 Million | 2005 Million | 2006 Million | 2005 Million |
| Outstanding at beginning of year | 2,0 | 2,2 | 0,2 | 0,3 |
| Issued | 2,2 | 1,0 | | |
| Exercised | (0, 7) | (1,2) | (0,1) | (0,1) |
| Lapsed/cancelled | (0,4) | | | |
| **Outstanding at end of year** | **3,1** | 2,0 | **0,1** | 0,2 |
| The average remaining contractual life in days at the end of the year is as follows: | | | | |
| Average days until fully vested | 463 | 402 | 64 | 218 |
| Average days until expiry | 1 875 | 1 220 | 729 | 1 115 |
| The average prices applicable per transaction type are: | | | | |
| Issued (R) | 75,12 | 51,93 | | |
| Exercised (R) | 23,64 | 19,56 | 11,30 | 13,15 |
| Lapsed/cancelled (R) | 42,60 | | | |
| Outstanding (R) | 48,57 | 32,73 | 8,17 | 8,87 |

36. SHARE-BASED PAYMENTS continued

| | Options | | Loan purchase and paid up/ deferred purchase plan | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | Million | Million | Million | Million |
| Details of outstanding options during the year are as follows: | | | | |
| *1. Mittal – Type Option Scheme* | | | | |
| Latest expiry date | 2016 | | | |
| Exercise price (R) | 60,00 – 94,29 | | | |
| Total proceeds if outstanding options are immediately exercised (Rm) | 211 | | | |
| *2. 30:30:40 Option Scheme* | | | | |
| Latest expiry date | 2011 | 2011 | | |
| Exercise price range (R) | 16,10 – 65,19 | 18,15 – 65,19 | | |
| Total proceeds if outstanding options are immediately exercised (Rm) | 87 | 114 | | |
| *3. Legacy Option Plan* | | | | |
| Latest expiry date | 2 016 | 2 011 | | |
| Exercise price range (R) | 10,92 – 15,50 | 10,92 – 35,50 | | |
| Total proceeds if outstanding options are immediately exercised (Rm) | 3 | 5 | | |
| Closing price (R) | 98,25 | 61,25 | | |
| Details of outstanding loan purchase and paid up/ deferred purchase plan shares exercised during the year are as follows: | | | | |
| Latest expiry date | | | 2010 | 2011 |
| Exercise price range (R) | | | 3,13 – 10,92 | 2,18 – 23,10 |
| Total proceeds of shares issued (Rm) | | | 9 | 12 |

36. SHARE-BASED PAYMENTS continued

| | Options | | Loan purchase and paid up/ deferred purchase plan | |
|---|---|---|---|---|
| | Exercise price range R | Outstanding '000 | Exercise price range R | Outstanding '000 |
| Terms of the options and shares outstanding at year-end are as follows: | | | | |
| **For year ended 31 December 2006** | | | | |
| **Expiry date** | | | | |
| 2007 | **10,92 – 14,80** | **18 520** | **10,92** | **22 670** |
| 2008 | **18,15** | **238 800** | **10,92** | **11 680** |
| 2009 | **16,10 – 20,70** | **20 410** | **10,92** | **900** |
| 2010 | **28,80 – 65,19** | **214 820** | **10,92** | **16 850** |
| 2011 | **10,92 – 64,10** | **422 286** | | |
| 2015 | **60,00** | **855 760** | | |
| 2016 | **60,91 – 94,29** | **1 287 760** | | |
| Total | | **3 058 356** | | **52 100** |
| **For year ended 31 December 2005** | | | | |
| **Expiry date** | | | | |
| 2006 | 10,92 – 35,50 | 45 980 | 10,92 – 23,10 | 8 320 |
| 2007 | 10,92 – 14,80 | 18 520 | 3,05 – 10,92 | 50 810 |
| 2008 | 17,10 – 21,00 | 528 760 | 2,18 – 10,92 | 25 160 |
| 2009 | 10,92 – 23,35 | 136 150 | 2,38 – 10,92 | 2 790 |
| 2010 | 28,80 – 65,19 | 510 260 | 4,74 – 10,92 | 22 020 |
| 2011 | 10,92 – 64,10 | 717 606 | 10,92 – 15,50 | 1 140 |
| Total | | 1 957 276 | | 110 240 |

36. SHARE-BASED PAYMENTS continued

The fair value of options granted during the year determined using the Binomial Matrix valuation model was R17 million (December 2005: R7,4 million).

For the year ended 31 December 2006, the following assumptions were used:

**Expected life**

The early exercise multiple for all option grants is 2,0 years.

**Volatility**

The weighted average volatility assumption for the option grants is equal to 36,6% (December 2005: 40,5%) per year.

**Risk-free rate**

The weighted average risk-free rate used to value options issued in 2006 was 8,1% (December 2005: 7,6%).

**Dividend yield**

An average dividend yield of 6,0% (December 2005: 4,6%) per year was used to value options granted.

| | GROUP 2006 Rm | GROUP 2005 Rm | COMPANY 2006 Rm | COMPANY 2005 Rm |
|---|---|---|---|---|
| **37. CONTINGENT LIABILITIES** | | | | |
| Contingent liabilities at balance sheet date, not otherwise recognised in these financial statements, arising from: | | | | |
| – Guarantees in the normal course of business from which it is anticipated that no material liabilities will arise | 115 | 120 | 56 | 120 |
| – Litigation and claims | 415 | 503 | 351 | 503 |

Litigation and claims consist of:

**Taxation dispute – Business Assistance Agreement**

The amount provided as a present obligation is detailed in note 29. The amount disclosed as a contingent liability of R323 million (company: R259 million) is the difference between the total amount claimed and that provided.

**Alleged contravention of Competition Act**

Three complaints have been lodged with the competition authorities alleging that the company contravened the Competition Act in that it abused its dominant position in so far as its pricing policies are concerned. An administrative penalty of 10% on the annual turnover of the 2004 financial year is being claimed.

During the hearings to date the authorities declined an additional remedy sought by the complainants for the company to sell its 50% holding in Macsteel International Holdings BV. Additional pleadings permitted during the hearings were relief sought in preventing the company from imposing any conditions on customers in respect of the use or re-sale of its flat steel products, and the disclosure of list prices, rebates and discounts on all flat steel products.

Final hearings occurred in November 2006. The decision of the competition authorities is expected in 2007. Management remain of the opinion, based on advice from legal counsel, that no significant exposure exists in this regard and therefore no provision for a possible liability has been recognised.

**General export incentive scheme**

The amount provided for as a present obligation is detailed in note 29. The amount disclosed as a contingent liability of R92 million (company: R92 million) is the difference between the total amount claimed and that accrued for.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | Rm | Rm | Rm | Rm |
| 38. COMMITMENTS | | | | |
| **Capital commitments** | | | | |
| Capital expenditure contracted for plant and equipment | **960** | 740 | **861** | 717 |
| Capital expenditure authorised for plant but not contracted for | **769** | 486 | **700** | 471 |
| The company has a commitment to continue funding Saldanha Steel until such time as that company's assets, fairly valued exceed its liabilities | | | | |
| The group's share of the capital commitments of its joint ventures is as follows: | | | | |
| Capital expenditure contracted | **372** | 336 | | |
| Capital expenditure authorised but not contracted | **457** | 476 | | |
| **Operating lease commitments** | | | | |
| Equipment | | | | |
| The future minimum payments under non-cancellable operating leases are as follows: | | | | |
| – Less than 1 year | **5** | 25 | **3** | 19 |
| – More than 1 year and less than 5 years | **39** | 44 | **27** | 29 |
| **Total** | **44** | 69 | **30** | 48 |
| Property | | | | |
| The future minimum lease payments under non-cancellable operating leases are as follows: | | | | |
| – Less than 1 year | | 1 | | |
| – More than 1 year and less than 5 years | | | | |
| **Total** | | 1 | | |

These commitments will be financed from available cash resources, funds generated from operations and available borrowing capacity.

39. DIRECTORS' EMOLUMENTS FOR MITTAL STEEL SOUTH AFRICA AND SUBSIDIARIES

39.1 Directors' emoluments

| | Notes | Fees R | Basic salary R |
|---|---|---|---|
| **For the year ended 31 December 2006** | | | |
| **Executive directors** | | | |
| EM Reato | 1 | | 562 375 |
| HJ Verster | 2 | | 1 205 911 |
| J Mashaba | | | 1 234 788 |
| DK Chugh | 3 | | 1 283 912 |
| HC Banthia | 4 | | 183 951 |
| V Sethuraman | 10 | | |
| LL van Niekerk | 15 | | |
| Sub-total | | | 4 470 937 |
| **Non-executive directors** | | | |
| K Ngqula | 5 | 370 000 | |
| KDK Mokhele | 6 | 365 000 | |
| MJN Njeke | 7 | 293 000 | |
| SE Jonah | 8 | 129 125 | |
| Sub-total | | 1 157 125 | |
| **Total** | | 1 157 125 | 4 470 937 |

| Bonuses/ performance related payments R | Allowances (12) R | Other benefits (13) R | Retirement contributions R | Loss of office (14) R | Total R |
|---|---|---|---|---|---|
| | 48 347 | 19 954 | 50 578 | | 681 254 |
| | 233 733 | 11 180 | 114 950 | | 1 565 774 |
| 247 883 | 132 000 | 13 359 | 114 057 | | 1 742 087 |
| 405 992 | 85 000 | 253 205 | | | 2 028 109 |
| 77 463 | | | | | 261 414 |
| 27 099 | | | | | 27 099 |
| | | | | 1 312 500 | 1 312 500 |
| 758 437 | 499 080 | 297 698 | 279 585 | 1 312 500 | 7 618 237 |
| | | | | | 370 000 |
| | | | | | 365 000 |
| | | | | | 293 000 |
| | | | | | 129 125 |
| | | | | | 1 157 125 |
| 758 437 | 499 080 | 297 698 | 279 585 | 1 312 500 | 8 775 362 |

39. DIRECTORS' EMOLUMENTS FOR MITTAL STEEL SOUTH AFRICA AND SUBSIDIARIES continued

39.1 **Directors' emoluments** continued

| | Notes | Fees R | Basic salary R |
|---|---|---|---|
| **For the year ended 31 December 2005** | | | |
| **Executive directors** | | | |
| DK Chugh | | | 2 001 501 |
| HC Banthia | 9 | | 447 107 |
| J Mashaba | | | 1 063 196 |
| V Sethuraman | 10 | | 719 038 |
| Sub-total | | | 4 230 842 |
| **Non-executive directors** | | | |
| K Ngqula | 5 | 320 000 | |
| S Maheshwari | | 140 000 | |
| LN Mittal | | 100 000 | |
| A Mittal | | 136 000 | |
| KDK Mokhele | | 244 000 | |
| MJN Njeke | 7 | 180 000 | |
| SE Jonah | 11 | 35 005 | |
| Sub-total | | 1 155 005 | |
| **Total** | | 1 155 005 | 4 230 842 |

*The above exclude share options, which are disclosed in note 39.2*

**Notes**

1. Appointed as Chief Executive Officer on 15 September 2006
2. Appointed 17 February 2006
3. Resigned as Chief Executive Officer on 14 September 2006 and appointed as non-executive director
4. Resigned 17 February 2006
5. Resigned as non-executive chairman on 31 December 2006. Fees paid to South African Airways (2005 and 2006) in Mr Ngqula's capacity as Chief Executive Office of that company
6. Appointed as non-executive chairman on 1 January 2007
7. Fees paid to Kagiso Media in Mr. Njeke's capacity as Deputy Chairman of that company
8. Resigned 7 November 2006
9. Appointed 7 September 2005

| Bonuses/ performance related payments R | Allowances (12) R | Other benefits (13) R | Retirement contributions R | Loss of office (14) R | Total R |
|---|---|---|---|---|---|
| | | | | | |
| 639 331 | 165 000 | 14 114 | 223 821 | 500 000 | 3 543 767 |
| | 215 909 | | | | 663 016 |
| 98 666 | 168 000 | 20 111 | 85 948 | | 1 435 921 |
| 120 115 | 201 300 | 4 020 | 66 000 | 62 510 | 1 172 983 |
| 858 112 | 750 209 | 38 245 | 375 769 | 562 510 | 6 815 687 |
| | | | | | |
| | | | | | 320 000 |
| | | | | | 140 000 |
| | | | | | 100 000 |
| | | | | | 136 000 |
| | | | | | 244 000 |
| | | | | | 180 000 |
| | | | | | 35 005 |
| | | | | | 1 155 005 |
| 858 112 | 750 209 | 38 245 | 375 769 | 562 510 | 7 970 692 |

10. Resigned 8 August 2005
11. Appointed 3 November 2005
12. Includes travel, entertainment, telephone, computer and relocation allowances
13. Includes deferred compensation and medical aid
14. Includes remaining restraint of trade payments, normal retrenchment package and the payment of bonus and remaining leave benefit
15. Resigned on 12 December 2004. Payment made on 31 March 2006 for restraint of trade

Pensions

Pensions paid or receivable by executive directors are paid or received under contributory pension schemes

Independent non-executive directors

From 2006 only independent non-executive directors received directors' fees

39. DIRECTORS' EMOLUMENTS FOR MITTAL STEEL SOUTH AFRICA AND SUBSIDIARIES continued

39.2 **Share options**

Options issued to and shares purchased by executive directors, which includes the allocation of 44,6 million (December 2005: 44,6 million) shares in terms of the Mittal Steel South Africa Management Share Trust (note 36), totalled 376 056 as at 31 December 2006 (December 2005: 468 486) as follows:

| | Balance as at 1 January 2006 | | | |
|---|---|---|---|---|
| **Name** | Subscription price R | Number | Date of issue | Period granted (years) |
| **For the year ended 31 December 2006** | | | | |
| DK Chugh | 56,50 | 38 046 | 2005/09/28 | 6 |
| HC Banthia | 51,00 | 150 300 | 2005/09/07 | 6 |
| J Mashaba | 37,25 | 140 070 | 2004/07/23 | 6 |
| V Sethuraman | 37,25 | 140 070 | 2004/07/23 | 6 |
| HJ Verster | 18,15 | 26 760 | 2002/05/07 | 6 |
| | 16,10 | 7 000 | 2003/03/18 | 6 |
| EM Reato | | | | |
| **Total** | | 502 246 | | |

| Issues | | | | | Sold/forfeited | | | Balance as at 31 Dec 2006 |
|---|---|---|---|---|---|---|---|---|
| Subscription price R | Number of options/ shares | Date of issue | Period granted (years) | Notes | Number during the year | Net gains on options/ shares | Notes | |
| | | | | | | | 1 | 38 046 |
| 60,00 | 42 980 | 2005/12/12 | 10 | 2 | | | 1 | 42 980 |
| | | | | | 150 300 | | 3 | |
| | | | | | 42 020 | 1 459 775 | 4 | 78 050 |
| | | | | | 20 000 | 846 000 | 5 | |
| | | | | | 42 020 | 1 008 060 | 6 | |
| | | | | | 98 050 | | | |
| | | | | | | | | 26 760 |
| | | | | | | | | 7 000 |
| 94,29 | 52 470 | 2006/11/08 | 10 | 7 | | | | 52 470 |
| 92,20 | 5 250 | 2006/12/12 | 10 | 7 | | | | 5 250 |
| 60,00 | 35 720 | 2005/12/12 | 10 | 2, 8 | | | | 35 720 |
| 60,91 | 9 600 | 2006/03/01 | 10 | 8 | | | | 9 600 |
| 94,29 | 55 190 | 2006/11/08 | 10 | 8 | | | | 55 190 |
| 86,00 | 24 990 | 2006/11/20 | 10 | 8 | | | | 24 990 |
| | 226 200 | | | | 352 390 | 3 313 835 | | 376 056 |

39. DIRECTORS' EMOLUMENTS FOR MITTAL STEEL SOUTH AFRICA AND SUBSIDIARIES continued

39.2 **Share options** continued

| | Balance as at 1 January 2005 | | | |
|---|---|---|---|---|
| **Name** | Subscription price R | Number | Date of issue | Period granted (years) |
| **For the year ended 31 December 2005** | | | | |
| DK Chugh | 18,15 | 50 920 | 2002/05/07 | 6 |
| HC Banthia | | | | |
| J Mashaba | 37,25 | 140 070 | 2004/07/23 | 6 |
| V Sethuraman | 37,25 | 140 070 | 2004/07/23 | 6 |
| **Total** | | 331 060 | | |

**Notes**

1. Resigned as Chief Executive Officer on 14 September 2006 and appointed as non-executive director
2. Offer accepted in January 2006
3. Resigned 17 February 2006
4. Sold on 21 June 2006 at R71,99
5. Sold on 14 September 2006 at R79,55
6. Resigned 8 August 2005
7. Appointed 17 February 2006. Balance of share options brought forward prior to appointment date represent those held prior to being appointed as Executive Director.
8. Appointed as Chief Executive Officer on 15 September 2006. Share options issued prior to appointment date represent those held prior to being appointed as Executive Director.
9. Sold on 11 May 2005 at R48,60
10. Appointed 7 September 2005
11. Resigned 8 August 2005

| Issues | | | | | Sold/forfeited | | | Balance |
|---|---|---|---|---|---|---|---|---|
| Subscription price R | Number of options/ shares | Date of issue | Period granted (years) | Notes | Number during the year | Net gains on options/ shares | Notes | as at 31 Dec 2005 |
| 56,50 | 38 046 | 2005/09/28 | 6 | | 50 920 | 920 367 | 8 | 38 046 |
| 51,00 | 150 300 | 2005/09/07 | 6 | 9 | | | | 150 300 |
| | | | | | | | | 140 070 |
| | | | | | | | 10 | 140 070 |
| | 188 346 | | | | 50 920 | 920 367 | | 468 486 |

39. DIRECTORS' EMOLUMENTS continued

### 39.3 Directors' interest in shares

The interest of the directors in the ordinary share capital of the company is as follows:

| | Notes | |
|---|---|---|
| **As at 31 December 2006** | | |
| Non-executive directors | 1 | |
| **As at 31 December 2005** | | |
| LN Mittal | 2 | |
| **Total** | | |

**Notes**

1. LN Mittal resigned on 29 November 2006. LN Mittal's position was filled by MAL Wurth, who together with S Maheshwari, DK Chugh and M Mukherjee represent Mittal Steel Holding AG, with its holding of 52,02%
2. Acquired 9 million indirect beneficial shares on 24 November 2005

### 39.4 Directors' service contracts

All Executive Directors are employed in terms of ordinary service contracts subject to a single calendar month's notice period.

MITTAL

| | Beneficial | | Non-beneficial | | | |
|---|---|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect | Total | Total % |
| | | 231 876 454 | | | 231 876 454 | 52,02 % |
| | | 231 876 454 | | | 231 876 454 | |

## 40. RENTAL AGREEMENT

A depot and off-loading facility owned by the company (included under note 15) is leased to a third party in terms of a 14 year rental agreement ending 30 June 2013. In terms of the rental agreement, the lessee does not have the option to purchase the facility at any stage during or after the completion of the contract.

The total rentals received for the year ended 31 December 2006 amounted to R26 million (December 2005: R28 million). The future gross operating rentals to be received in accordance with the agreement are set out below:

| | 2006<br>Rm | 2005<br>Rm |
|---|---|---|
| Gross operating rentals | | |
| Not later than 1 year | 25 | 27 |
| Later than 1 year but not later than 5 years | 84 | 90 |
| Later than 5 years | 25 | 43 |
| **Total** | **134** | 160 |

The facility is not regarded as an investment property as the leasing arrangement is regarded as incidental to the greater steel manufacturing cash-generating unit's assets to which it belongs.

# Annexure 1: Investments in joint ventures

| | Number of shares held | Percentage holding 2006 % | 2005 % | Group carrying amount 2006 Rm | 2005 Rm | Company carrying amount 2006 Rm | 2005 Rm | Year end other than 31 December |
|---|---|---|---|---|---|---|---|---|
| JOINT VENTURES | | | | | | | | |
| **Unlisted shares** | | | | | | | | |
| Collect-a-Can (Proprietary) Limited | 2 400 000 | **60** | 60 | **12** | 11 | **2** | 2 | |
| Consolidated Wire Industries Limited | 1 999 999 | **50** | 50 | **56** | 56 | **14** | 14 | |
| Ensimbini Terminals (Proprietary) Limited | 1 000 | **50** | 50 | **12** | 11 | **10** | 10 | 30 June |
| Macsteel International Holdings BV | 35 001 | **50** | 50 | **867** | 828 | | | |
| Microsteel (Proprietary) Limited | 2 000 | **50** | 50 | | | | | 30 June |
| Pietersburg Iron Company (Proprietary) Limited | 4 000 | **50** | 50 | **6** | 6 | **6** | 6 | |
| **Total investment** | | | | **953** | 912 | **32** | 32 | |
| **Directors' valuation of unlisted shares in joint ventures** | | | | **1 037** | 1 088 | **32** | 32 | |

Where the above entities' financial year-ends are not coterminous with that of the company, financial information has been obtained from management accounts.

# Annexure 1: Investments in joint ventures continued

The balance sheets, income statements and cash flow items in respect of joint ventures are as follows:

| | As at 31 December 2006 Rm | As at 31 December 2005 Rm |
|---|---|---|
| BALANCE SHEETS | | |
| **Non-current assets** | **828** | 694 |
| **Current assets** | **4 167** | 2 747 |
| **Total assets** | **4 995** | 3 441 |
| Shareholders' equity | **1 917** | 1 824 |
| **Non-current liabilities** | | |
| Interest-bearing borrowings | **63** | 577 |
| Other | **591** | 2 |
| **Current liabilities** | | |
| Interest-bearing borrowings | **704** | 14 |
| Other | **1 720** | 1 024 |
| **Total equity and liabilities** | **4 995** | 3 441 |

| | Year ended 31 December 2006 Rm | 2005 Rm |
|---|---|---|
| INCOME STATEMENTS | | |
| **Revenue** | **22 510** | 21 274 |
| Operating expenses | **(22 129)** | (20 747) |
| **Net operating profit** | **381** | 527 |
| Net financing costs | **(72)** | 24 |
| Gains on changes in foreign exchange rates and financial instruments | | 18 |
| Income from investments | **24** | |
| Income from equity-accounted investments | **32** | 18 |
| **Profit before taxation** | **383** | 569 |
| Taxation | | |
| – Normal | **(125)** | (70) |
| **Net profit attributable to ordinary shareholders** | **258** | 499 |
| CASH FLOW STATEMENTS | | |
| Net cash flows from operating activities | **270** | 724 |
| Net cash flows from investing activities | **(869)** | 49 |
| Net cash flows from financing activities | **447** | (416) |
| Foreign currency translations | **43** | 2 |
| **Net (decrease)/increase in cash and cash equivalents** | **(109)** | 359 |

# Annexure 2: Investments in subsidiaries[1]

| | Country of incorporation[2] | Issued capital-unlisted ordinary shares | Interest of company | | | |
|---|---|---|---|---|---|---|
| | | | Shares | | Indebtedness | |
| | | | **December 2006 R** | December 2005 R | **December 2006 Rm** | December 2005 Rm |
| PROPERTY | | | | | | |
| Dunswart Iron and Steel Works Limited[3] | RSA | 124 619 | | 1 653 047 | | (3) |
| Yskor Landgoed (Proprietary) Limited | RSA | 4 000 | **4 000** | 4 000 | **(94)** | (94) |
| MANUFACTURING | | | | | | |
| Iscor Building Systems (Proprietary) Limited | RSA | 100 | **100** | 100 | | |
| Saldanha Steel (Proprietary) Limited | RSA | 2 000 | **1 009** | 1 009 | **3 461[4]** | 4 625[4] |
| SERVICE | | | | | | |
| Ferrosure (South Africa) Insurance Co Limited | RSA | 1 000 | **3 000 000** | 3 000 000 | | |
| Ferrosure (Isle of Man) Insurance Co Limited[5] | IOM | 1 002 | | 86 623 805 | | |
| Ferrosure (Isle of Man) Insurance Co Limited[5, 6] | IOM | 70 | **12 011 246** | | | |
| Mittal Steel South Africa Investments BV | NEH | 134 669 | **241 105 200** | 241 105 200 | **6** | 1 |
| Pybus Fifty-Seven (Proprietary) Limited | RSA | 1 | **1 000** | 1 000 | **(32)** | 21 |
| Vicva Investments and Trading Nine (Proprietary) Limited | RSA | 1 | **1 000** | 1 000 | | |
| Dombotema Mining Investments (Proprietary) Limited | RSA | 1 | **1** | 1 | | |
| Mabwetema Mining Investments (Proprietary) Limited | RSA | 1 | **1** | 1 | | |
| **Total investments in subsidiaries** (note 18) | | | **256 123 557** | 332 389 163 | **3 341** | 4 550 |

*[1]At 100% holding except where otherwise indicated.*

*[2]RSA – Republic of South Africa, IOM – Isle of Man and NEH – The Netherlands*

*[3]The company was deregistered during the year*

*[4]This amount includes the shareholders' loan of R8 million (December 2005: R8 million) and intercompany advances of R3 million (December 2005: R3 million)*

*[5]Ordinary shares were sold on 21 December 2006. Acquired 70 non-voting redeemable preference shares. In terms of SIC 12 this interest is consolidated*

*[6]Issued capital is non-voting redeemable preference shares*

# Analysis of shareholders

as at 31 December 2006

RANGE OF SHAREHOLDERS

| | Number of shareholders | % | Holdings | % |
|---|---|---|---|---|
| 1 – 100 shares | 5 779 | 20,66 | 285 263 | 0,06 |
| 101 – 1 000 shares | 20 088 | 71,81 | 4 122 982 | 0,92 |
| 1 001 – 50 000 shares | 1 732 | 6,19 | 14 530 613 | 3,26 |
| 50 001 – 100 000 shares | 132 | 0,47 | 9 361 407 | 2,10 |
| 100 001 – 10 000 000 shares | 240 | 0,86 | 139 602 412 | 31,32 |
| 10 000 001 and more shares | 3 | 0,01 | 277 849 455 | 62,33 |
| | 27 974 | 100,00 | 445 752 132 | 100,00 |

TYPE OF SHAREHOLDERS

| | % shareholding |
|---|---|
| Corporate holdings | 60,00 |
| Pension funds | 17,00 |
| Unit trusts | 10,00 |
| Other management funds | 4,00 |
| Insurance companies | 4,00 |
| Other funds | 4,00 |
| Unclassified and below threshold | 1,00 |
| | 100,00 |
| **GEOGRAPHICAL HOLDINGS BY OWNER** | |
| Netherlands | 52,20 |
| South Africa | 38,70 |
| USA | 4,30 |
| Other countries | 3,30 |
| Below threshold | 1,50 |
| | 100,00 |

SHAREHOLDINGS OF MORE THAN 5 %

| | Holdings | % |
|---|---|---|
| Mittal Steel Holdings AG | 231 876 454 | 52,02 |
| Industrial Development Corporation of South Africa | 39 167 364 | 8,79 |
| Old Mutual Asset Managers | 26 230 656 | 5,88 |
| **PUBLIC AND NON-PUBLIC SHAREHOLDERS** | | |
| Mittal Steel Holdings AG | 231 876 454 | 52,02 |
| Mittal Steel South Africa Management Share Trust | 111 530 | 0,03 |
| Industrial Development Corporation of South Africa | 39 167 364 | 8,79 |
| | 271 155 348 | |
| Non-public shareholders | 271 155 348 | |
| Public shareholders | 174 596 784 | |
| | 445 752 132 | |

*

# Information relating to the directors of Mittal Steel South Africa who retire by rotation

MITTAL

| | |
|---|---|
| **Enrico Mario Reato** | (50) |
| Academic qualifications | BSc (Eng) (Electrical), Management Development Programme Certificate, Executive Programme at Darden School of Business |
| Occupation | Chief Executive Officer |
| Experience | Appointed Chief Executive Officer on 15 September 2006 |
| Other current directorships | None |
| **Noluthando Dorian Orleyn** | (51) |
| Academic qualifications | BJuris, BProc, LLB, Hon PHD |
| Occupation | Non-executive director |
| Experience | Appointed non-executive director on 1 February 2007 |
| Other current directorships | Peotona Group Holdings (Proprietary) Limited; Peotona Capital (Proprietary) Limited; Peotona Gold (Proprietary) Limited; Implats; Western Areas Limited; South African Reserve Bank; Toyota South Africa; Cricket South Africa; Landelahni Recruitment Group; Johannesburg Roads Agency |
| **Michel Alphonse Léon Wurth** | (52) |
| Academic qualifications | Master of Sciences in Economics, Master of Law, Master of Political Sciences |
| Occupation | Non-executive director |
| Experience | Appointed non-executive director on 29 November 2006 |
| Other current directorships | Mittal Steel Company N.V.; Arcelor SA |
| **Davinder Kumar Chugh** | (50) |
| Academic qualifications | BSc (Physics), LLB, MBA |
| Occupation | Non-executive director |
| Experience | Appointed non-executive director on 14 September 2006 |
| Other current directorships | Macsteel International Holdings B.V.; Mittal Steel Temirtau |
| **Malay Mukherjee** | (59) |
| Academic qualifications | Masters Degree in Mining, Bachelor of Science Degree, Completed an advanced management programme |
| Occupation | Non-executive director |
| Experience | Appointed non-executive director on 6 September 2006 |
| Other current directorships | Mittal Steel Annaba Spa; Mittal Steel Tebessa Spa; Mittal Canada Inc.; Mittal Steel Gandrange S.A.; JSC Mittal Steel Termirtau; Mittal Steel Europe S.A.; Mittal Steel Lazaro Cardenas, S.A. de C.V.; Mittal Steel Mexico, S.A. de C.V.; Oxigeno del Balsas, S.A. de C.V.; Mittal Steel Point Lisas Limited; Mittal Shipping Limited; Mittal Steel Company Limited; Mittal Steel USA Inc.; Hunan Valin Steel Tube & Wire Co. Limited; OJSC "Mittal Steel Kryvij Rih" |

## Shareholders' diary

| | |
|---|---|
| Year-end | 31 December |
| Final results for December 2006 | February 2007 |
| Annual general meeting | 11 May 2007 |
| Interim results for 2007 | August 2007 |

# Notice to shareholders

NINETEENTH ANNUAL GENERAL MEETING

Notice is hereby given that the nineteenth Annual General Meeting of members of Mittal Steel South Africa Limited will be held in the Pambeli Room, Park Hyatt Hotel, 191 Oxford Road, Johannesburg, on Friday, **11 May 2007** at **11:00**, to conduct the following business:

**Ordinary business**

1. To receive and consider the annual financial statements for the company and the group for the year ended 31 December 2006, including the directors' report and the report of the auditors thereon.
2. To elect directors in the place of those who in terms of articles 15.2 and 16.1 of the company's articles of association retire by rotation and, being eligible, offer themselves for re-election:
   - M Mukherjee
   - MAL Wurth
   - Ms ND Orleyn
   - DK Chugh
   - EM Reato

   Refer to page 171 of this report for abbreviated *curriculum vitae* of the above.
3. To approve the non-executive directors' fees for the year ended 31 December 2006 (refer to note 39 on page 156).
4. To approve the following annual fees as the maximum non-executive directors' fees payable for the period 1 May 2007 until the next Annual General Meeting

| | Annual retainer | Attendance fee per meeting |
|---|---|---|
| Chairman | R700 000 | – |
| Director | R132 000 | R10 000 |
| Audit committee Chairman | | R22 000 |
| Audit committee member | | R10 000 |
| Committee Chairman | | R20 000 |
| Committee members | | R10 000 |
| Share Trust Chairman | | R20 000 |
| Share Trust member | | R10 000 |

5. To place the unissued share capital of the company under the control of the directors in terms of section 221 of the Companies Act, 1973, and to renew the authority of the directors to allot and issue any of the unissued shares of the company on such terms and conditions as they may deem fit, subject to the provisions of the Companies Act, 1973, and the requirements of JSE Limited (the JSE).
6. To consider and, if deemed fit, to pass, with or without modification, the following resolution as an ordinary resolution[1].

   Resolved that, subject to meeting the requirements of the JSE, the directors are hereby authorised to issue ordinary shares for cash as and when suitable opportunities arise, subject to the following conditions:
   - That this authority shall not extend beyond the next Annual General Meeting or 15 months from the date of this Annual General Meeting, whichever date is the earlier;
   - That there will be no restrictions in regard to the persons to whom the shares may be issued, provided that such shares are to be issued to public shareholders and not to related parties;
   - That a press announcement giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% of the company's issued ordinary share capital
   - That issues in the aggregate in any one financial year shall not exceed 15% of the company's issued ordinary share capital; and
   - That in determining the price at which an issue of shares will be made in terms of this authority, the maximum discount permitted will be 10% of the weighted average traded price of the shares in question, as determined over the 30 business days prior to the date that the price of the issue is determined or agreed by the directors.

   The approval of a 75% majority of the votes cast by shareholders present or represented by proxy at the general meeting is required for this resolution to become effective.
7. To authorise the directors by way of a general authority to make payments to shareholders from time to time in terms of section 90 of the Companies Act, as amended, and in terms of the Listings Requirements of the JSE in such amount and in such form as the directors may in their discretion from time to time determine, provided:



*[1]No issue of shares is contemplated at the present time, other than shares to be issued in terms of the Mittal Steel Management Share Incentive Scheme as and when required*

- That this general authority shall be valid only until the company's next annual general meeting or for 15 months from the date of this resolution, whichever period is shorter;
- That such payment may not, in the aggregate exceed 20% of the company's issued share capital, including reserves, but excluding minority interests and revaluations of assets and intangible assets that are not supported by a valuation of an independent professional expert to the JSE prepared within the last six months, in any one financial year, measured as at the beginning of such financial year;
- That such payments shall be made pro rata to all shareholders;
- That announcements will be published on SENS and in the press setting out the financial effects of the general payment prior to such payment being effected and complying with Schedule 24 of the Listings Requirements of the JSE; and
- That before effecting any general payment contemplated by this ordinary resolution, the directors will consider the effect of the general payment and will ensure that for a period of 12 months after the date of the notice of the general payment to be made;
  - The company and the group will be able, in the ordinary course of business, to pay their debts;
  - The assets of the company and the group, measured in accordance with the accounting policies used in the latest audited annual financial statements, will be in excess of the liabilities of the company and group;
  - The issued share capital and reserves of the company and group are adequate for their ordinary business purposes; and
  - The working capital of the company and group will be adequate for a period of 12 months from the date of notice to shareholders.

The directors of the company intend to utilise this authority in terms of this ordinary resolution number 7 in order to make payment to shareholders, in lieu of a dividend by way of a general payment from the company's share capital or share premium.

### Special Business

8. To consider and, if approved, to pass with or without modification the following special resolution subject to the approval of the JSE:

Special Resolution: "Resolved that in terms of the authority granted in the articles of association of the company and/or any subsidiary of the company, the company and/or its subsidiaries be and are hereby authorised, by way of a general approval, to acquire the company's own ordinary shares (shares), upon such terms and conditions and in such amounts as the directors of the company (and, in the case of an acquisition by a subsidiary(ies), the directors of the subsidiary(ies)), may from time to time decide but subject to the provisions of the Act and the JSE Listings Requirements and any other stock exchange upon which the shares of the company may be quoted or listed, subject to the following conditions:

(a) That this authority shall be valid until the next Annual General Meeting of the company, or for 15 months from the date of passing of this resolution, whichever period is shorter;

(b) That any repurchases of shares in terms of this authority be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counter-party, such repurchases being effected by only one appointed agent of the company at any point in time, and effected only if after the repurchase the company still complies with the minimum spread requirements stipulated in the JSE Listings Requirements;

(c) That the acquisitions in any one financial year shall be limited to 10% of the issued share capital of the company at the date of this Annual General Meeting, provided that any subsidiary(ies) may acquire shares to a maximum of 10% of the issued share capital of the company at the date of this Annual General Meeting, provided that any subsidiary(ies) may acquire shares to a maximum of 10% of the aggregate of the shares in the company;

(d) That any acquisition of shares in terms of this authority, may not be made at a price greater than 10% above the weighted average market value of the shares over the five business days immediately preceding the date on which the acquisition is effected;

(e) The repurchase of shares may not be effected during a prohibited period, as defined in the JSE Listings Requirements; and

(f) That an announcement containing full details of such acquisitions of shares will be published as soon as the company and/or its subsidiary(ies) has/have acquired shares constituting, on a cumulative basis, 3% of the number of shares in issue at the date of the general meeting at which this special resolution is considered and, if approved, passed, and for each 3% in aggregate of the initial number acquired thereafter."

### Reason for and effect of the special resolution

The reason for, and the effect of this special resolution is to grant the directors a general authority in terms of the Act and, subject to the JSE Listings Requirements and any other stock exchange upon which the shares of the company may be quoted or listed, for the acquisition by the company or one of its subsidiaries of the company's own shares on the terms set out above.

The directors of the company have no specific intention to acquire any of the company's shares, a position which will as and when required by the directors be re-examined having regard to prevailing circumstances and, after considering the effects of a maximum repurchase, the directors are of the opinion that:

(a) The company will be able to pay its debts as they become due in the ordinary course of business for a period of 12 months after the date of notice of the Annual General Meeting;

(b) The consolidated assets of the company and its subsidiaries ("the group"), fairly stated in accordance with Generally Accepted Accounting Practice, will be in excess of its consolidated liabilities for a period of 12 months after the date of notice of the Annual General Meeting;

(c) The company's and the group's issued share capital and reserves will be adequate for ordinary business purposes for a period of 12 months after the date of notice of the Annual General Meeting; and

(d) The company's and the group's working capital will be adequate for ordinary business purposes for a period of 12 months after the date of notice of the Annual General Meeting.

The company will ensure that its sponsor will provide the necessary letter on the adequacy of the working capital in terms of the JSE Listings Requirements, prior to the commencement of any purchase of the company's shares on the open market.

The directors, whose names are given on pages 12 and the inside back cover of the Annual Report, collectively and individually accept full responsibility for the accuracy of the information given in that report and certify that to the best of their knowledge and belief there are no facts that have been omitted that would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the Annual Report contains all information required by law and the Listings Requirements of the JSE.

The company is not aware of any legal or arbitration proceedings, including any proceedings that are pending or threatened, that may have or have had in the recent past, ie at least the previous 12 months, a material effect on the financial position of the group.

Shareholders' attention is drawn to the following information that is required to be disclosed and which is contained in the pages of the Annual Report referred to:

- Independent non-executive and executive directors: pages 12;
- Major shareholders: page 170;
- Directors' interests in securities: pages 160 to 165;
- Share capital of the company: page 117; and
- Material changes: pages 70.

Any member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, speak and vote in his stead. The person so appointed need not be a member of the company. Proxy forms should be forwarded to reach the company's transfer secretaries by no later than 11:00 on 9 May 2007. The completion of a proxy form will not preclude a member from attending the meeting.

Please refer to the notes to the proxy form on the reverse side for additional guidance on completion of the proxy form and attendance at the meeting.

Beneficial shareholders whose shares are not registered in their own name but in the name of another, for example a nominee, must not complete a form of proxy or attend the Annual General Meeting unless a form of proxy is issued to them by the registered shareholder. This will include shareholders whose shares have been dematerialised in the name of a nominee of a CSDP or a broker or SDS Nominees (Proprietary) Limited. Beneficial shareholders who are not registered shareholders should contact registered shareholder or the Mittal Steel South Africa ShareCare Line (0800 006 960 or +27 11 370 7850 if you are calling from outside South Africa) for assistance in issuing instructions on voting their share or obtaining a form of proxy to attend the Annual General Meeting.

Shareholders holding dematerialised shares in the company through a CSDP or broker, other than with an "own name" registration, must timeously advise their CSDP or broker of their intention to attend and vote at the Annual General Meeting in order for their CSDP or broker to provide them with the necessary authorisation to do so, or should they not wish to attend the Annual General Meeting in person but wish to be represented thereat, they must timeously provide their CSDP or broker with their voting instruction in order for the CSDP or broker to vote in accordance with their instruction at the Annual General Meeting.

The form of proxy must be lodged at, posted or faxed to the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, at 70 Marshall Street, Johannesburg (PO Box 61051, Marshalltown, 2107) or faxed to +27 11 688 7721 to be received no later than 48 hours before the time fixed for the meeting.

By order of the board

XB Motswai
Company Secretary

16 March 2007

# Form of proxy

MITTAL

MITTAL STEEL SOUTH AFRICA LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 1989/002164/06)
JSE Code: MLA • ISIN: ZAE 0000 64044
(Mittal Steel South Africa or the company)

Form of proxy for use at the Nineteenth Annual General Meeting of the company, to be held on Friday, 11 May 2007 at 11:00 at the Pambeli Room, Park Hyatt Hotel, 191 Oxford Road, Rosebank, Johannesburg.

*Only registered shareholders who are registered in the register of members of the company under their own name may complete a form of proxy or attend the Annual General Meeting. This includes registered shareholders who have not dematerialised their shares, ie who still hold their Mittal Steel South Africa share certificate/s, or shareholders who have dematerialised their shares in their own name*

Deliver to
Computershare Investor Services 2004
(Proprietary) Limited
70 Marshall Street
Johannesburg

or

Mail to
Computershare Investor Services 2004
(Proprietary) Limited
PO Box 61051
Marshalltown, 2107

or

Fax to
+27 11 688 7721

I/We

(name in block letters)

of (address)

being the holder/s of ______ shares in the company do hereby appoint (see note 1)
(number of shares)

1. or, failing him/her,

2. or, failing him/her,

the chairman of the Annual General Meeting, as my/our proxy to act for me/us at the nineteenth Annual General Meeting of the company which will be held at the Pambeli Room, Park Hyatt Hotel, 191 Oxford Road, Rosebank, Johannesburg on 11 May 2007 at **11:00** and at any adjournment thereof, and to vote for me/us on my/our behalf or to abstain from voting as indicated below:

| | For | Against | Abstain |
|---|---|---|---|
| **Ordinary business** | | | |
| 1. Adoption of 2006 annual financial statements. | | | |
| 2. a) Re-election of M Mukherjee | | | |
| b) Re-election of MAL Wurth | | | |
| c) Re-election of Ms ND Orleyn | | | |
| d) Re-election of DK Chugh | | | |
| e) Re-election of EM Reato | | | |
| 3. Approval of non-executive directors' fees | | | |
| 4. Approval of non-executive directors' future fees | | | |
| 5. Placing of unissued shares under control of directors | | | |
| 6. Authority to directors to issue unissued shares for cash | | | |
| 7. Authority to directors to make payments to shareholders | | | |
| **Special business** | | | |
| 8. Authority to repurchase shares | | | |

Signed at this day of 2007

*(Signature)* *Assisted by me (Where applicable)*

*Please see notes on reverse*

# Notes to the form of proxy

1. Only registered shareholders who are registered in the register of members of the company under their own name may complete a form of proxy or attend the Annual General Meeting. This includes registered shareholders who have not dematerialised their shares, ie who still hold their Mittal Steel South Africa share certificate/s, or shareholders who have dematerialised their shares in their own name.
2. Beneficial shareholders whose shares are not registered in their own name but in the name of another, for example, a nominee, must not complete a form of proxy or attend the Annual General Meeting unless a form of proxy is issued to them by the registered shareholder. This includes shareholders whose shares have been dematerialised in the name of a nominee of a CSDP or a broker or SDS Nominees (Proprietary) Limited. Beneficial shareholders who are not registered shareholders should contact the registered shareholder or the **Mittal Steel South Africa ShareCare Line (0800 006 960 or +27 11 370 7850** if you are calling from outside South Africa) for assistance in issuing instructions on voting your shares or obtaining a form of proxy to attend the Annual General Meeting.
3. Shareholders holding dematerialised shares in the company through a CSDP or broker, other than with an "own name" registration, must timeously advise their CSDP or broker of their intention to attend and vote at the Annual General Meeting in order for their CSDP or broker to provide them with the necessary authorisation to do so, or should they not wish to attend the Annual General Meeting in person but wish to be represented there at, they must timeously provide their CSDP or broker with their voting instruction in order for the CSDP or broker to vote in accordance with their instruction at the Annual General Meeting.
4. A Mittal Steel South Africa shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the space provided, with or without deleting "the chairman of the Annual General Meeting". The person whose name stands first on the form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
5. A Mittal Steel South Africa shareholder's instructions to the proxy must be indicated by the insertion in the appropriate box provided of the relevant number of ordinary shares in respect of which he/she wishes to exercise his/her votes. Failure to comply with the above will be deemed to authorise the chairman of the general meeting, if he is the authorised proxy, to vote in favour of the ordinary resolutions at the general meeting, or any other proxy to vote or to abstain from voting at the meeting as the proxy deems fit, in respect of all the Mittal Steel South Africa shareholder's votes exercisable there at.
6. This form of proxy must be lodged at or posted or faxed to the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, at 70 Marshall Street, Johannesburg (PO Box 61051, Marshalltown, 2107) or faxed to +27 +11 688 7721 to be received no later than 48 hours before the time fixed for the meeting (excluding Saturdays, Sundays or public holidays)
7. The completion and lodging of this form of proxy will not preclude the ordinary shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.
8. The chairman of the meeting may reject or accept any form of proxy which is completed and/or received otherwise than in accordance with these notes.
9. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the company's transfer secretaries or waived by the chairman of the Annual General Meeting.
10. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.
11. A company or any other body corporate wishing to vote on a show of hands should ensure that the resolution required by section 188 of the South African Companies Act, 1973 (Act 61 of 1973), as amended (the Act), to authorise a representative to vote, is passed by its directors or other governing body. Resolutions authorising representatives in terms of section 188 of the Act must be received by the company's transfer secretaries no later than 48 hours prior to the time fixed for the meeting.



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# Directorate and administration

## DIRECTORS

### Chairman

KDK Mokhele#▲

### Executive Directors

EM Reato (Chief Executive)

HJ Verster (Executive Director, Finance)

JJA Mashaba (Executive Director, Human Resources)

### Non-executive Directors

S Maheshwari◆*

DK Chugh◆#▲

M Mukherjee◆*

ND Orleyn

MJN Njeke*·

MAL Wurth■

### Company Secretary

XB Motswai

## REGISTERED OFFICE

Vanderbijlpark plant

Room N3-5, Main Building

Delfos Boulevard

Vanderbijlpark

## POSTAL ADDRESS

PO Box 2

Vanderbijlpark

1900

Tel: 016 889 9111

## AUDITORS

Deloitte & Touche

## COMPANY REGISTRATION

Mittal Steel South Africa Limited

Reg No 1989/002164/06

## INTERNET ADDRESS

http://www.mittalsteelsa.com

## TRANSFER SECRETARIES

Computershare Investor Services 2004 (Proprietary) Limited

70 Marshall Street, Johannesburg

PO Box 61051

Marshalltown, 2107

Tel: 011 370 5000

Fax: 011 688 7721

## UNITED STATES ADR DEPOSITARY

The Bank of New York

ADR Department

101 Barclay Street, 22nd Floor, New York, NY10286

United States of America

Tel: 091 212 815 5133

Fax: 091 212 815 3050

Internet: http://www.bankofny.com

* *Member of audit committee*

· *Member of risk committee*

\# *Member of human resources and remuneration committee*

▲ *Member of safety, health and environment committee (SHE)*

◆ *Citizen of India*

■ *Citizen of Luxembourg*

Designed by motiv

Printed by Ince

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