



committed to transformation

Creating South Africa's flagship empowerment mining company

"Kumba Resources views BEE as a fundamental prerequisite for the long-term development and stability of the South African economy. Therefore, a distinguishing feature of its strategy is to commit the company to meaningful and sustainable BEE empowerment initiatives in all facets of its business. Progressive empowerment policies, the setting of aggressive employment equity targets and BEE are integral components of the company's value system and a code of conduct."

TRANSACTION HIGHLIGHTS

The proposed empowerment transaction will result in:

- a fully funded, sustainable black economic empowerment ("BEE") transaction and the potential to unlock value for all Kumba Resources shareholders through the partial separation of the iron ore assets from the non iron ore assets into Kumba Iron Ore (a newly named company) and Newco (being the reconstituted Kumba Resources pursuant to the Transaction), respectively;
- the establishment of Newco as South Africa's flagship empowerment company with an enterprise value of approximately R16 billion:
 - ◆ South Africa's largest black-owned, controlled and managed company;
 - ◆ Newco will continue to be listed on the JSE Limited ("JSE");
 - ◆ control of Newco by broad-based BEE groups representative of South Africa's demographics via BEE Holdco, the black controlled holding company holding 55% of Newco;
 - ◆ a 17.8% effective and fully funded interest held by women's groups in BEE Holdco;
 - ◆ Newco employees holding 3% of Newco through an employee share option programme ("ESOP"), whose major beneficiaries will be black employees;
 - ◆ the minimum BEE ownership requirements of the Mining Charter being significantly exceeded;
 - ◆ Newco as a diversified mining company with an attractive investment case which is well positioned strategically and financially to take advantage of growth opportunities in the South African mining sector, on the rest of the African continent and globally;
- the provision of facilitation to the BEE groups by Anglo American, The Industrial Development Corporation of South Africa Limited ("IDC") and Kumba Resources minorities;
- a targeted spread on the JSE of 25% for Newco;
- the retention by Anglo American of a residual stake in Newco as a demonstration of its long-term commitment to Newco;
- the creation of Kumba Iron Ore as a pure play iron ore company listed on the JSE with an enterprise value of approximately R14 billion which, through the unbundling to all existing Kumba Resources shareholders of the iron ore assets, will hold the majority of Kumba Resources' South African iron ore assets through Sishen Iron Ore Company (Proprietary) Limited ("SIOC"), with Newco retaining a 20% stake in SIOC;
- Northern Cape broad-based community groupings ("Northern Cape community group") acquiring a 3% interest in SIOC on a fully funded basis; and
- SIOC employees holding 3% of SIOC through an ESOP, whose major beneficiaries will be black employees.

TRANSACTION SUMMARY

The Transaction

- 80% of Kumba Resources' interest in SIOC will be transferred to a newly named company, Kumba Iron Ore, and unbundled to all existing Kumba Resources shareholders. Pursuant to the Transaction there will be two separate listed entities, namely:
 - ◆ Newco, which will have significant coal, heavy minerals and zinc assets, together with a 20% holding in SIOC; and
 - ◆ Kumba Iron Ore which will own 74% of Kumba Resources' South African iron ore operations, held through SIOC, after the Northern Cape community group and ESOP transactions.
- Kumba Resources' existing shareholders will hold shares in both listed companies in proportion to their existing shareholdings in Kumba Resources prior to the various steps required to implement the Transaction.
- Newco will acquire the entire issued share capital of Eyesizwe Coal (Proprietary) Limited ("Eyesizwe Coal") from Eyesizwe Mining and the other shareholders in Eyesizwe Coal. All the Eyesizwe Coal shareholders will, through a Special Purpose Vehicle ("SPV"), utilise the cash received to subscribe for shares in BEE Holdco.
- Consortia led by Eyabantu Capital (Proprietary) Limited ("Eyabantu"), TisoGroup (Proprietary) Limited ("Tiso") and South African Women in Mining Association ("BEE Women's Groups"), through SPVs, and the IDC will subscribe for shares in BEE Holdco through the injection of either cash or Newco shares.
- BEE Holdco will, through a series of inter-conditional transaction steps, acquire and exercise control over 55% of Newco's issued ordinary share capital.
- Shares in Newco, being approximately 3% of its issued ordinary share capital, will be made available to employees of Newco through a Newco ESOP, the majority of the beneficiaries of which will be black employees. Accordingly, BEE Holdco together with the Newco ESOP will hold 58% of Newco.
- The Northern Cape community group will acquire a vendor funded interest of approximately 3% in the issued ordinary share capital of SIOC.
- Shares in SIOC, being approximately 3% of its issued ordinary share capital, will be made available to employees of SIOC through a SIOC ESOP, the majority of the beneficiaries of which will be black employees.

THE OTHER TRANSACTIONS

- **As separate and independent transactions:**
 - ◆ Kumba Resources has made a proposal, recommended by the independent directors of the Titor Limited ("Titor") board, subject to no superior offer being received and Titor minority shareholder and Australian court approval, to acquire, for cash, the outstanding shares (48.8%) in Titor which it does not already own through a scheme of arrangement in terms of the Australian Corporations Act; and
 - ◆ Anglo American will, subject to certain conditions, including the implementation of the Transaction, grant options to Newco to acquire 100% of Namakwa Sands (heavy minerals assets) and 26% of Black Mountain and Gamsberg (zinc assets) at a fixed price, in addition to an offtake agreement in respect of zinc concentrate.

KEY INVESTMENT HIGHLIGHTS

As a result of the above transactions and assuming that Newco exercises the options set out above, Newco would:

- have an enterprise value of approximately R16 billion;
- become the second largest titanium slag producer and the third largest titanium feedstock and zircon supplier globally;
- be the fourth largest coal producer in South Africa producing 45 million tonnes of coal per annum;
- strengthen its leading position in the Southern African zinc market;
- have a significant interest in iron ore through its 20% stake in SIOC;
- have a significant greenfield and brownfield project pipeline to exploit its significant reserve and resource base; and
- have significant financial capacity to expand its business with a net debt level of R0.8 billion initially, and increasing to R 3.25 billion after exercising the options, implying debt levels of 20% of enterprise value.

Following the unbundling Kumba Iron Ore will:

- have an enterprise value of approximately R14 billion;
- offer significant growth opportunities particularly in South Africa with production targeted to increase from 32 to 42 million tonnes per annum by 2008; and
- be a subsidiary of the Anglo American group.