

100416 Pt Trade

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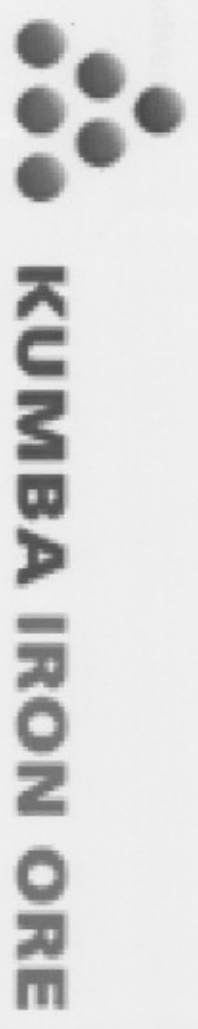
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Kumba Iron Ore Limited

Presentation to the Trade and Industry Portfolio Committee

16 April 2010



I. Kumba's understanding of IPAP II

1

IPAP II builds on the National Industrial Policy Framework

- Importantly, the 2007/2008 Industrial Policy Action Plan, *inter alia*
 - Lowered input costs, particularly key inputs into manufacturing
 - Revised programmes for the automotives and clothing and textiles sectors

2

IPAP II

- IPAP II was tabled before Parliament on 18 February 2010
 - Seeks to outline a new growth path and move away from consumption-driven growth
 - Builds on the National Industrial Policy Framework and seeks to promote long term industrialisation and diversification as well as job creation
 - Takes a step forward in efforts to promote long term industrialisation and diversification
- South Africa seeks to address the economic challenge of production sectors lagging economic growth

3

This presentation examines how Kumba seeks to support the objectives of IPAP II

2. Areas where Kumba is relevant to IPAP II

1

Kumba's understanding of the core IPAP II objectives

- Focus on production in value added sectors with high employment and growth multipliers, both of which are highly pertinent in Kumba's case
 - Government is committed to sustainable growth in South African industry
 - Shift focus away from debt driven consumption in the South African economy
- Create 2.5m direct and indirect jobs within 10 years

2

Kumba believes that, for South Africa to meet the IPAP II objectives, the following, *inter alia*, are required

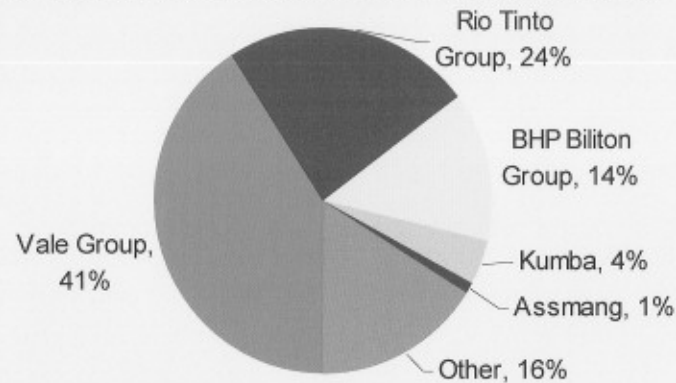
- Job creation and skills development
- Sustainable broad based black economic empowerment
- Sufficient and competitively priced energy
- Reliable, efficient and affordable transport systems, including rail and ports
- Competitive steel sector
- Greater transparency of key inputs into productive processes

Kumba has an important role to play in achieving the IPAP II objectives

3. Overview of the iron ore and steel industries in South Africa

Iron ore industry

Global market shares of seaborne iron ore producers (2007)

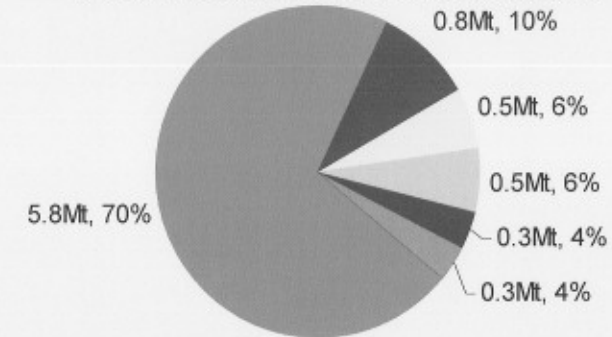


SIOC: 2009 key figures

- Total saleable iron ore mined of 41.9Mt
 - Sishen – 39.4Mt
 - Thabazimbi – 2.5Mt
- Total sales of 40Mt
 - Domestic sales of 5.8Mt
 - 3.7Mt supplied to ArcelorMittal from Sishen
 - 1.8Mt supplied to ArcelorMittal from Thabazimbi
 - 0.3Mt supplied to other steel producers from Sishen
 - Export sales of 34.2Mt

Steel industry

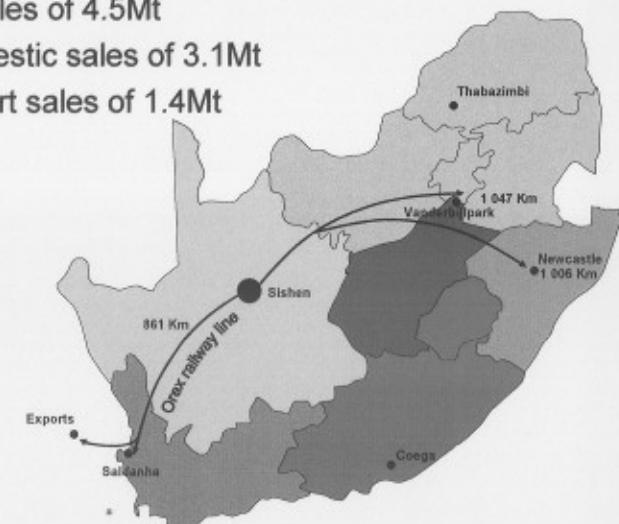
Market shares of domestic steel producers



■ ArcelorMittal ■ Highveld ■ Scaw ■ Cape Gate ■ Cisco ■ Other

ArcelorMittal: 2009 key figures

- Total liquid steel production of 5.3Mt
- Total sales of 4.5Mt
 - Domestic sales of 3.1Mt
 - Export sales of 1.4Mt



4. Kumba's contribution to South Africa

Overview

Job creation and skills development are core objectives of IPAP II

Kumba and SIOC are fully committed to these objectives

1

Kumba is the 4th largest supplier of seaborne iron ore in the world

- Kumba, operating through its 74% held subsidiary SIOC, has two operational mines at Sishen and Thabazimbi, with a third, Kolomela (Sishen South), scheduled to begin production in 2012
- Kumba generated revenue of R23.4bn in 2009 (2008: R21.4bn), of which R22bn related to export sales (2008: 20bn)
- Kumba has a market capitalisation of c.R121bn and is the 12th largest company listed on the JSE

2

Employs more than 11,900 employees and contractors

- Up from 10,260 in 2008

3

Investing significantly in job creation and skills development

- R234m spent on skills development since 2007
- Enterprise development activities have resulted in the creation of 26 new businesses and 250 permanent jobs over the past two years

4

A large contributor to the fiscus

- 2009 operating profit of R12.9bn
- 2009 total taxes paid of c.R4.1bn

5

Major commitment to transformation

- Empowerment partners have received R5bn in dividends since 2007
- 2009 spend of R3.2bn on preferential procurement
- Kumba and SIOC are fully compliant with the Mining Charter

6

Significant user of transport logistics

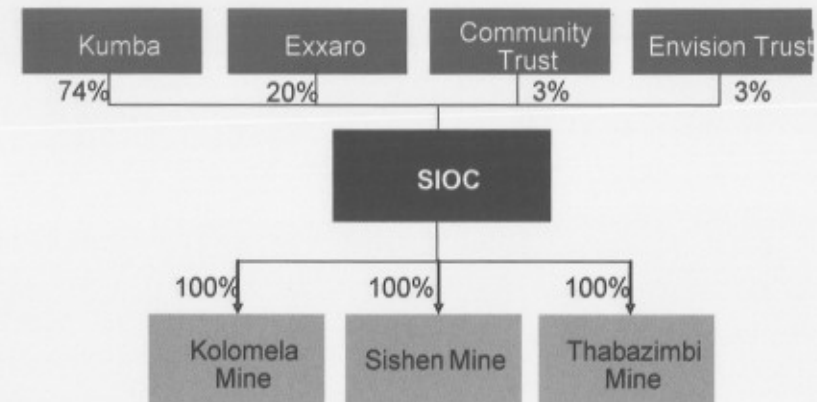
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Comprehensive and sustainable social and environmental management

4. Kumba's contribution to South Africa

Empowerment

- 1** In 2006, Kumba completed an empowerment transaction in respect of SIOC, whereby 26% of SIOC was acquired by its empowerment partners



- 2** Since 2007, the following dividends have been paid to SIOC's empowerment partners

- Exxaro – R3,789m
 - One of the largest black controlled mining companies in South Africa with a market capitalisation of c.R47bn
 - Facilitated by Anglo American through its unbundling of Kumba Resources
- Community Trust (benefitting the communities around SIOC's mines) – R593m (expected to repay all of its debt by the end of 2010 – four year pay-off period vs original estimation of 10 years)
- Envision Trust (benefitting SIOC's employees) – R593m (R125m paid to employees, balance used to repay debt)

4. Kumba's contribution to South Africa

Preferential procurement, enterprise development and social spend

Social spend of c.R190m since 2007

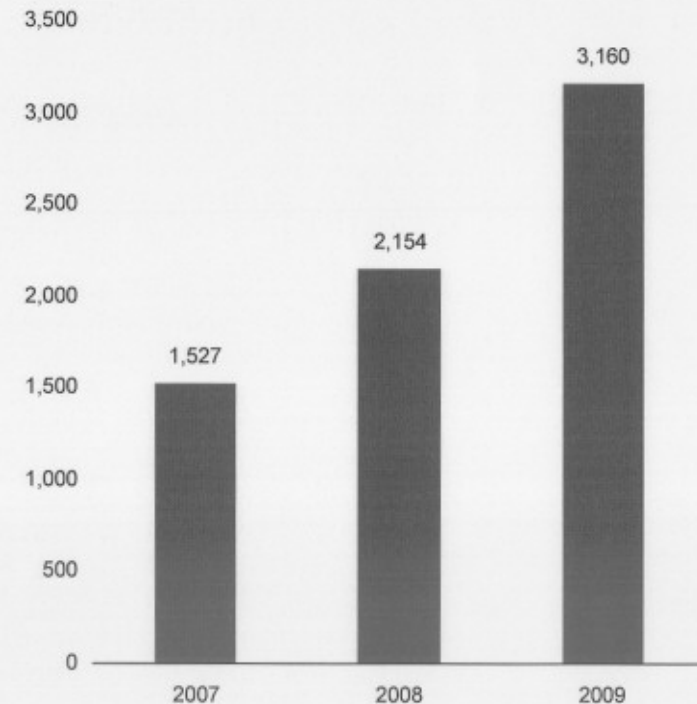
Kumba is expecting social spend in excess of 1% of net profit after tax in 2010

1 In 2009, Kumba spent R3.2bn (36.9% of its discretionary spend) with black owned and black empowered vendors

2 Majority of Kumba's enterprise development activities are driven out of the small business hub at Kathu

- This has facilitated the creation of 26 businesses with finance of R11m provided by Anglo Zimele Fund
- Over the last 24 months, "enterprise businesses" benefitting from Kumba's Enterprise Development spend have generated revenues of R54m and created 250 permanent jobs
- The Anglo Zimele small business hub, established in Kathu in 2008 by Sishen Mine, won a Nedbank Capital Green Mining Award and shared first prize in the socio-economic category in the Kenmare Moma Development Association Awards

Preferential procurement expenditure (R'm)



4. Kumba's contribution to South Africa

Skills development and employment equity

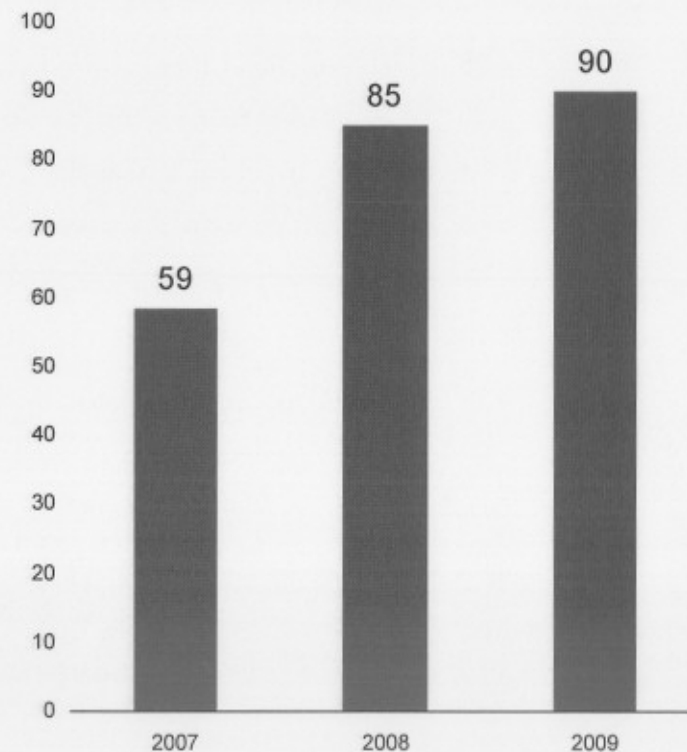
1 Skills development

- Total skills development spend of more than R234m since 2007
 - In 2009, Kumba spent R90.4m on skills development (more than 5% of payroll)
- Kumba has accredited training centres at both the Sishen and Thabazimbi Mines
- In 2009, 69 bursaries were awarded
- 522 learnerships
- In total, 660 people on various accelerated development programs

2 Employment equity

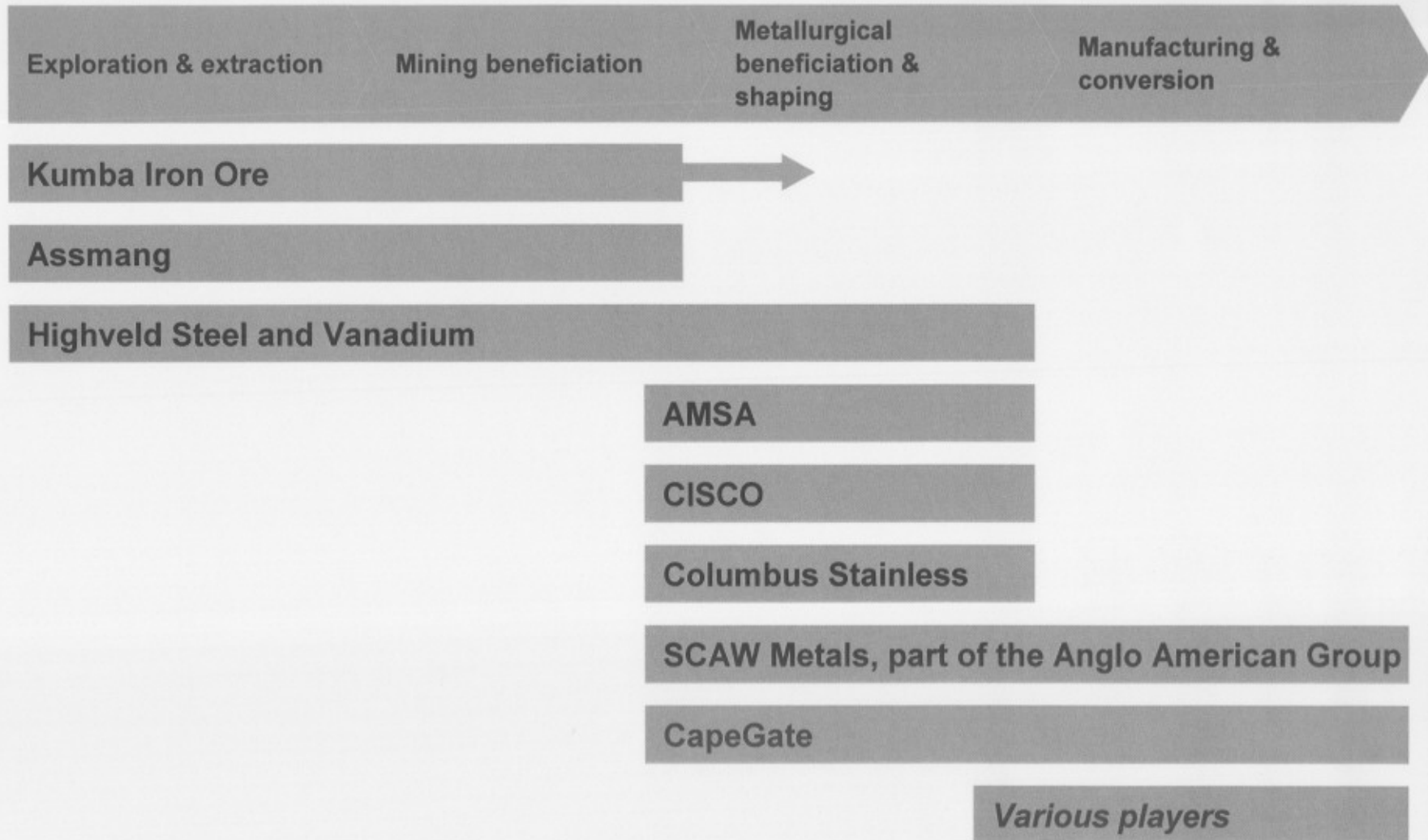
- Black management: 31%
- Total female representation: 14%

Skills development expenditure (R'm)



4. Kumba's contribution to South Africa

Beneficiation



4. Kumba's contribution to South Africa

Beneficiation

1

Kumba has extensive mining beneficiation expertise

- Involvement includes the upgrading of iron ore resources to saleable product
- R&D focuses on reducing energy requirements and waste production as well as on maximising mineral resource utilisation
 - Annual spend of R174m on training and R&D
 - Jigging Concentration Plant built in 2006 at Sishen Mine (cost c. R5bn)

2

Kumba works closely with other participants in the iron ore and steel value chain to explore further metallurgical beneficiation and shaping

- Kumba has initiated projects focusing on metallurgical beneficiation (R16m to be spent in 2010)
- Working with Mintek to develop new technologies to enhance downstream beneficiation options
- Internal research on alternative DRI technologies

3

Kumba continually engages with the IDC and the DTI on their efforts to attract new South African steel producers

- To increase the competitiveness of the steel industry to benefit downstream beneficiation

5. Securing ongoing power supply - Eskom

Kumba's use of power:

- 90MW used in 2009
- Electricity usage expected to increase to 270MW in 2019 (including Kolomela)
- c.R137m paid to Eskom in 2009
- Kolomela Mine will require 13MW additional power
- Downstream beneficiation will require further power

1

Dependence on Eskom

- Kumba's mining operations as well as downstream beneficiation activities are critically dependent on security of energy supply
- Energy shortages may place constraints on capacity to expand
- Increased tariffs may make South Africa's iron ore and steel industries less competitive

2

Commitment to secure appropriate solutions

- Kumba is committed to continuing to work with Eskom, government and the industry around energy efficiency
- Kumba remains concerned about the security of supply
 - Kumba's electricity usage expected to increase to 270MW by 2019, including Kolomela Mine that will require a further 13MW
 - Downstream beneficiation of iron ore is highly energy intensive
- Anglo American group target of improvement in energy efficiency of 15% by 2014
- Independent Power Producers / Cogeneration
 - Kumba has invested in solar heating for all of its new housing developments in the Northern Cape
- To enable forward planning, Kumba and the rest of the mining sector need clarity on energy planning, regulation and supply

Kumba, as part of the Anglo American Group, is committed to working with Eskom and other stakeholders to secure appropriate solutions

6. Securing rail and ports logistics - Transnet

Kumba's use of rail and port

infrastructure:

- 34.6Mt railed in 2009 for exports
- 5.8Mt railed for domestic consumption
- Transnet looking to expand Orex line
- Kolomela Mine will require c.9Mtpa line capacity
- Transnet moving ahead with private sector partnerships, in particular key commodity export corridors

1 Mutual dependence between Transnet and Kumba

- Kumba is a major user of the Orex (Sishen-Saldanha) railway line as well as the Saldanha port
 - All iron ore produced at Sishen and Thabazimbi is railed on and shipped through Transnet's facilities, with the majority of iron ore produced at Sishen exported via Saldanha
- Kumba is in continual discussions with Transnet in order to synchronise expansion plans relating to rail and ports capacity

2 Impact of recent Transnet developments

- The challenges Transnet is facing in funding its capex programme may restrict new infrastructure development, posing a risk to Kumba's expansion plans
 - Kumba is aiming to double exports by 2013, with Transnet looking to expand the Orex line
 - An upgrade to the existing infrastructure for the export of steel entails a significant capex requirement

3 Transnet's rail and port capacity is currently insufficient for further growth

- Further expansion is unlikely due to current indicative capital requirements and resultant tariffs
- Industry and Transnet are currently engaging regarding short and long term expansion initiatives

Transport infrastructure in South Africa must be addressed to ensure there is sufficient capacity to support future growth and development

7. Background to the Kumba and ArcelorMittal structures

1

In 2001, Iscor split its steel operations and its mining assets into two separate entities

- Intention was to unlock value in respect of the higher rating and stronger earnings attributable to the mining assets
- Led to formation of Kumba Resources to house the coal, iron ore and base metal assets

2

Iscor retained the steel operations

- Simultaneously, Iscor acquired the IDC's 50% shareholding in Saldanha Steel

3

As part of the unbundling of Iscor

- Iscor (now ArcelorMittal) retained a 21.4% undivided interest in the (old order) mining right at Sishen Mine
- SIOC (now 74% held by Kumba) acquired an 78.6% undivided interest in the (old order) mining right at the Sishen Mine
- In terms of the Sishen Supply Agreement, which was based on Iscor's ownership of the 21.4% undivided interest, SIOC would provide Iscor with contract mining services and, consequently, supply it with 6.25Mtpa on a cost plus 3% basis
 - Any additional iron ore would be sold to Iscor at export parity prices

4

At the same time in 2001, Mittal was introduced as a strategic partner to Iscor via a 3-year "Business Assistance Agreement"

- Mittal had a right to earn up to 10% of Iscor and had to in turn invest US\$75m in Iscor via a purchase of shares on the open market by March 2003
- Mittal ultimately attained its majority interest in Iscor in January 2003 (offer made to minorities after it had acquired up to 34.8%)
- Mittal currently holds c.52% of ArcelorMittal

5

Kumba Resources split in November 2006, with Kumba holding the iron ore assets and Exxaro the coal and base metal assets

- Exxaro, Kumba's empowerment partner, holds a 20% interest in SIOC

8. Securing a competitive steel industry

Contextualising the current dispute

1

ArcelorMittal offtake (pre-dispute)

- Sishen Supply Agreement – On the basis of ArcelorMittal's ownership of the 21.4% undivided mining right in the Sishen Mine, SIOC supplied ArcelorMittal with 6.25Mtpa from the Sishen Mine on a cost plus 3% basis
- Thabazimbi – Under a separate arrangement, ArcelorMittal is entitled to the Thabazimbi output at cost plus 3% (c.2.5Mtpa)
 - Thabazimbi currently has large stockpiles of iron ore

2

ArcelorMittal failed to convert to new order mining rights

- Those rights therefore lapsed under the MPRDA
 - SIOC applied for the lapsed rights to protect its interests
 - Prospecting rights were awarded to Imperial Crown Trading (“ICT”)
- Kumba's position is that, as a result of the lapse of ArcelorMittal's mining rights, SIOC is no longer obliged to supply ArcelorMittal with iron ore at cost plus 3%

3

Current status of dispute

- Kumba has made several proposals for both interim and long term pricing
 - To date, these appear to have been rejected by ArcelorMittal
- Kumba believes that the Sishen Supply Agreement has lapsed
- Matter likely to be resolved through arbitration

This is a commercial dispute between two companies

8. Securing a competitive steel industry

The impact of Kumba supplying iron ore to a competitive steel industry on an arm's length basis

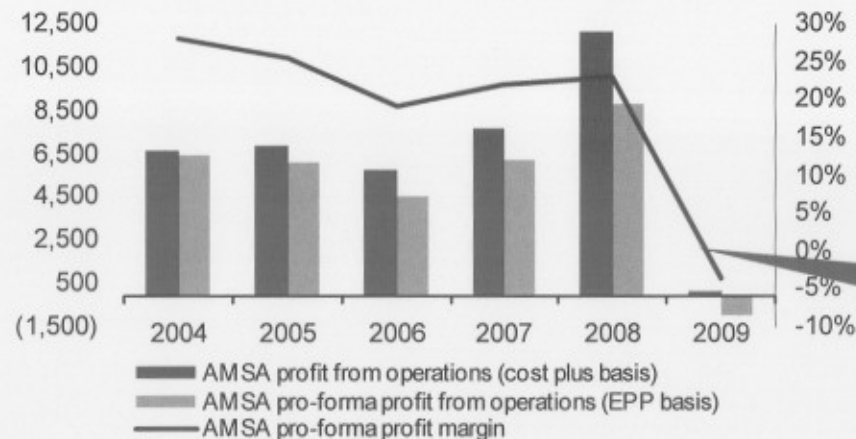
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Increased competition

- ArcelorMittal is the largest producer of steel in South Africa (approximately 70%)
 - ArcelorMittal obtains the vast majority of its iron ore from Kumba (c.65%)
 - Up to 6.25Mtpa from Sishen Mine
 - 100% of the production at Thabazimbi
- Making iron ore available to a broader spectrum of steel producers in South Africa should create opportunities for increased competition in the steel sector

2

Marginal impact on ArcelorMittal profitability



In every year since 2004 (except for 2009, the first full year of the global financial crisis), ArcelorMittal would have had significant profits even if it had paid EPP for Sishen ore

Due to the financial crisis, all international steel producers experienced drastic declines in profits

8. Securing a competitive steel industry

ArcelorMittal's recent steel price increase

1

ArcelorMittal recently announced a R600 per ton surcharge to be levied with effect from 1 May 2010 (equivalent to a 10% increase)

- "...this will involve passing on increased prices to our customers" - N Nyembezi-Heita

2

The ArcelorMittal surcharge represents a departure from its historical pricing policy

- In 2006, ArcelorMittal claimed that it had changed the way it prices steel from import parity to a basket of local steel prices in the US, Germany, Russia and China
 - Basket price not related to domestic input costs
 - Steel prices charged by ArcelorMittal in the domestic market in 2009 were nevertheless above the basket price
- The below market cost plus price that ArcelorMittal has paid for its iron ore has not had the effect of lowering steel prices in South Africa

3

International steel prices have recently increased

- Please refer to the graph on the next slide

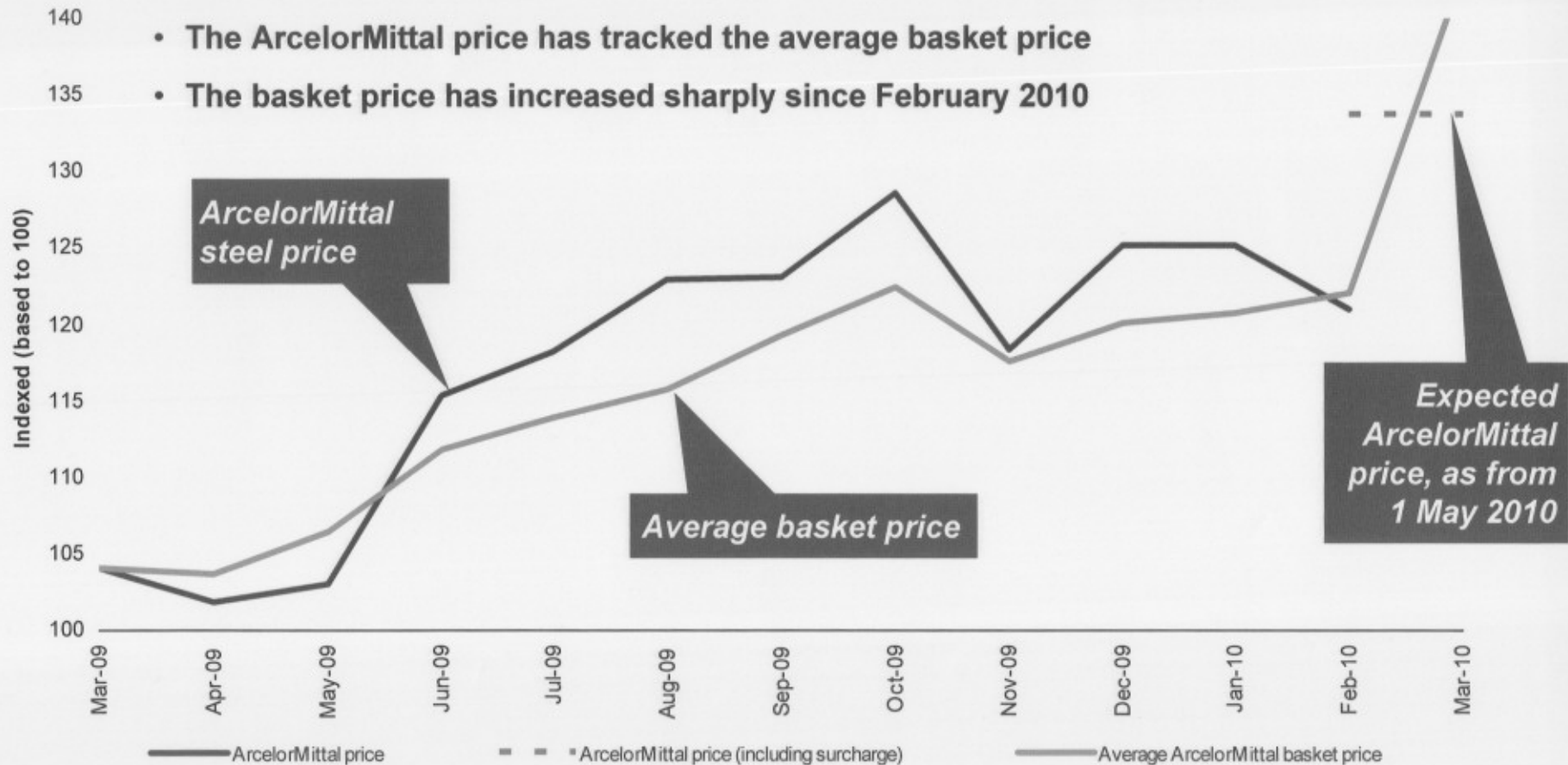
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Accordingly, ArcelorMittal was expected to increase steel prices in line with the basket price

- Not linked to the Kumba proposal

8. Securing a competitive steel industry

Indexed ArcelorMittal steel price comparison - Rebar



The ArcelorMittal price increase does not seem to be linked to the Kumba price proposal

9. Key takeaways

1

IPAP II is a key tool in government's commitment to sustainable growth of the South African economy

- Kumba is a key stakeholder in the achievement of the IPAP II objectives

2

There are critical issues that must be addressed if the goals of IPAP II are going to be achieved

- Sufficient, reliable and competitively priced energy is critical to the growth of energy intensive mining and manufacturing industries
- Efficient and reliable transport is vital
 - Essential to align logistics growth with expansion plans for industry
- A competitive steel industry, with level playing fields, is necessary
- The dispute with ArcelorMittal is a commercial dispute between two companies which will be decided through arbitration

Kumba believes that it can make a contribution to certain of the key objectives of IPAP II

10. Kumba's contribution to IPAP II objectives

- Growth in employment
- Commitment to skills development
- Increased utilisation of infrastructure (Eskom and Transnet)
- Continuing downstream beneficiation
- Significant contribution to the fiscus, linked to Kumba's profitability
- Focus on community upliftment
- Significant generation of foreign income, linked to Kumba's expectation of doubling exports by 2013
- Mine optimally
- Facilitation of a competitive steel industry

Kumba is a major stakeholder in the successful implementation of the IPAP II objectives
