

Strictly private and confidential

■ Kumba Iron Ore Limited  
Presentation to the Trade and Industry Portfolio Committee  
13 August 2010



# I. Introduction

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## **The Committee has invited Kumba to engage on**

- Recent developments within the steel industry
- The impact of recent developments on the various related value chains (including the manufacturing sector) as recognised in IPAP II
- Progress related to the implementation of IPAP II to date and potential blockages that may arise

2

## **Kumba engaged with the Committee on 16 April 2010 on the following**

- Kumba's understanding of IPAP II and areas where Kumba is relevant to IPAP II
- Overview of the iron ore and steel industries in South Africa
- Kumba's contribution to South Africa
- Securing ongoing power supply
- Securing rail and ports logistics
- Background to the Kumba and ArcelorMittal structures
- Securing a competitive steel industry
- Kumba's contribution to IPAP II objectives

# 1. Introduction (continued)

3

**The engagement on 16 April 2010 focused on the following objectives of IPAP II and key requirements and challenges to those objectives, including**

- Job creation and skills development
- Sustainable broad based black economic empowerment
- Sufficient, reliable and competitively priced energy is critical to the growth of energy intensive mining and manufacturing industries
- Reliable, efficient and affordable transport systems, including rail and ports
  - Essential to align logistics growth with expansion plans for industry
- Competitive steel industry
- Greater transparency of key inputs into productive processes

4

**Today's presentation provides an overview of**

- Status update of recent developments
- Outstanding matters to be finalised
- The supply of iron ore to ArcelorMittal and the impact thereof on the related value chains
- Next steps

***On 16 April 2010, Kumba engaged with the Committee regarding Kumba's progress related to the implementation of IPAP II and potential challenges***

***These matters will not be presented on today***

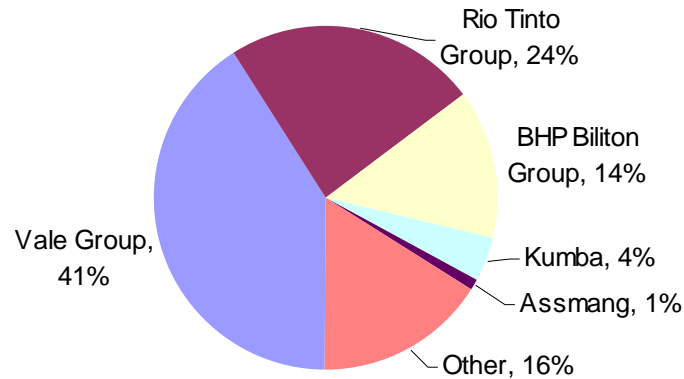
## 2. Status update

### 1 Kumba's role in the value chain

- Kumba mines iron ore, and in 2009 exported 34.2Mt and sold 5.8Mt to the local steel industry
- Of the 5.8Mt sold to the local steel industry, 4.0Mt was sold under the long term Sishen Supply agreement linked to ArcelorMittal's former 21.4% mining right in Sishen mine (maximum offtake of 6.25Mtpa) and 1.8Mt was sold to ArcelorMittal from the Thabazimbi mine

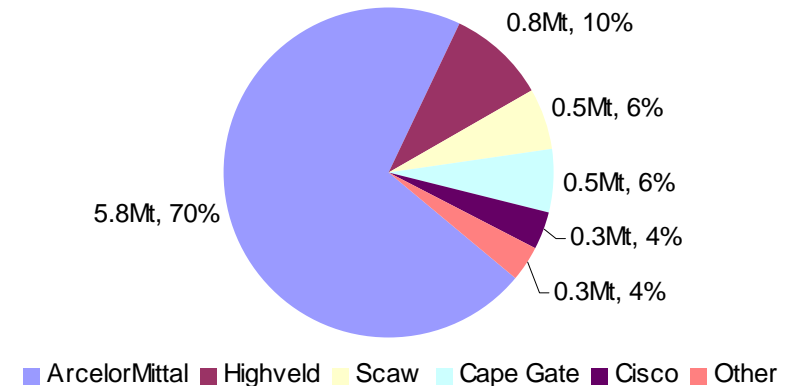
#### Iron ore industry

Global market shares of seaborne iron ore producers (2007)



#### Steel industry

Market shares based on 2008 steel production estimates



### 2 Sishen Supply Agreement lapsed (30 April 2009)

- ArcelorMittal failed to apply for the conversion of its 21.4% old order mining rights over Sishen mine
  - ArcelorMittal's rights lapsed
- SIOC no longer obliged to contract mine and supply ArcelorMittal with 6.25Mtpa of discounted iron ore
  - Validity of Sishen Supply Agreement is the subject matter of arbitration

## 2. Status update (continued)

*Kumba is keen to participate in all forums and engage in an open and transparent manner, provided that such discussions do not compromise the following legal processes:*

- *Arbitration with ArcelorMittal regarding the validity of the Sishen Supply Agreement*
- *High Court review of the DMR's decision to award a prospecting right to ICT*

3

### **SIOC submitted a compliant application for the 21.4% balance of the mining rights in a manner that was compliant with the regulatory framework**

- In the absence of ArcelorMittal applying for the 21.4% mining rights
  - Kumba applied in order to protect its position
  - SIOC is best placed to mine Sishen mine in a manner that aligns with the IPAP II objectives
- ICT was awarded a prospecting right, in a manner that was non-compliant with the MPRDA
  - SIOC has a number of legal, regulatory and safety concerns regarding the award
- High Court review launched on 21 May 2010 to challenge the award of the prospecting right
- The DMR has the ability to review its award of the prospecting right to ICT

4

### **An interim agreement was reached with ArcelorMittal for the supply of iron ore**

- Effective 31 March 2010 until 31 July 2011
- Significant discount to market related pricing

5

### **Government has established an inter-departmental task team comprising the DTI, DMR and DED**

- Task team seeks to facilitate a long term solution
  - Considering broader national developmental objectives, that ensures:
    - The viability and cost-competitiveness of local steel production; and
    - A competitive steel pricing regime to support the development and deepening of value-added manufactured products in downstream industries

***Kumba and, separately, ArcelorMittal have been invited by the task team to engage in considering these issues***

## 3. Outstanding matters

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**Stakeholders need to recognise the following matters remain unresolved, notwithstanding the conclusion of an interim agreement**

- 1 The award of the prospecting right to ICT**
  - High Court review has been initiated to set aside the award of the prospecting right to ICT
- 2 The outcome of SIOC's application for the mining rights**
  - SIOC had applied for the remaining 21.4% mining rights over Sishen mine
- 3 The validity of the original Sishen Supply Agreement that has now lapsed**
  - Arbitration expected to take 18-24 months to resolve
- 4 The terms of the supply of iron ore to ArcelorMittal upon expiry of the interim agreement**
  - Failing the arbitration having been concluded by 31 July 2011, a further interim pricing agreement will have to be agreed
- 5 The terms of any longer term agreement for the supply of iron ore to ArcelorMittal**
  - Longer term iron ore supply agreement to be reached, should Kumba be successful in the arbitration or a long term solution be reached prior to the conclusion of the arbitration

***All of the above outstanding matters are inter-related and need to be resolved in a holistic manner***

## 4. The supply of iron ore to ArcelorMittal

1

### **The Sishen Supply Agreement has now lapsed**

- The discounted price previously obtained by ArcelorMittal has not benefitted South African steel end users and has provided ArcelorMittal with an advantage over its domestic competitors

2

### **In the absence of a supply agreement, the parties reached an interim agreement that provides for the supply of iron ore at substantial discounts to market related prices**

- Effective 1 March 2010 until 31 July 2011
- Substantial discount to market related prices
  - Saldanha Steel – US\$50 / ton (67% discount to market prices over the period – US\$219m)
  - Inland plants – US\$70 / ton (54% discount to market prices over the period – US\$557m)
- Kumba believes that ArcelorMittal's plants remain viable at market related prices and no job cuts would be required

3

### **Kumba believes that it is appropriate to conclude a new long term supply agreement that is cognisant of**

- Kumba's fiduciary and commercial obligations to its shareholders and empowerment partners
- The requirements of other stakeholders, including Government's broader national developmental objectives

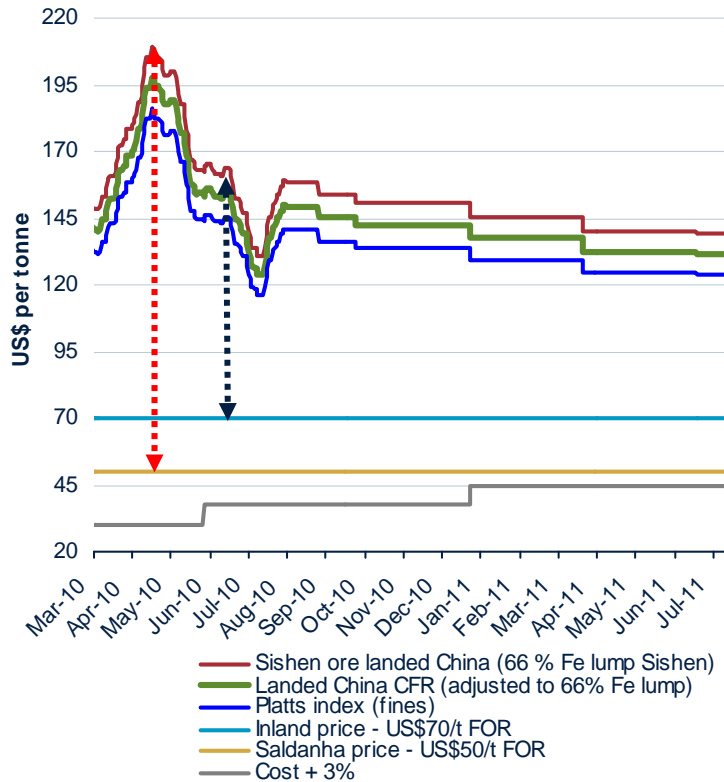
# 4. The supply of iron ore to ArcelorMittal (continued)

## Impact of the interim agreement on ArcelorMittal

The interim pricing agreed with ArcelorMittal is significantly lower than pricing for other customers

- Benefit to ArcelorMittal in respect of its Saldanha plant (red dash line) and its inland plants (blue dash line)

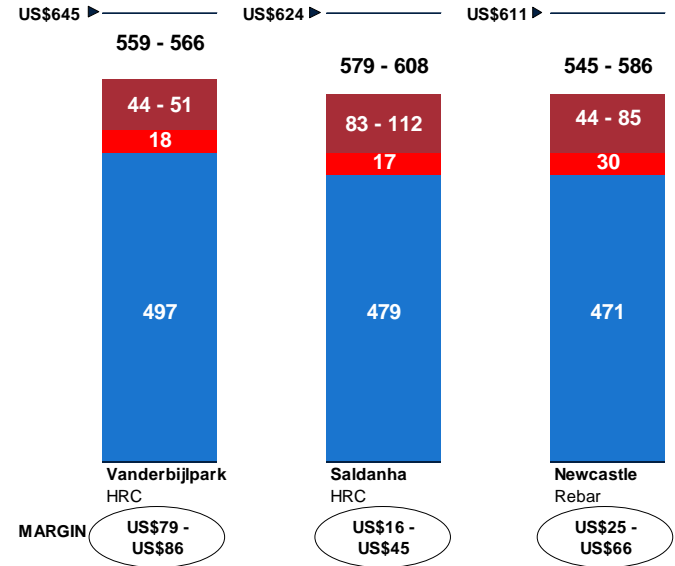
Financial benefit received by ArcelorMittal under the interim pricing arrangement (US\$ per ton)



Source London Commodity Brokers - Commodity News, 24 June 2010

**Substantial benefits to ArcelorMittal in terms of the interim agreement**

Estimated breakeven price for ArcelorMittal's various operations



■ Fixed and variable cost at cost + 3% iron ore  
■ Impact of iron ore price (move to interim pricing)  
■ Impact of iron ore price (move to EPP)  
  Margin  
— Weighted averaged steel price, based on average domestic price and EPP, observing the ratio of domestic to export sales

Source Kumba estimates for H1 2010 production costs and forecast 2010 selling prices

**Even at market related prices, ArcelorMittal's operations remain viable**



## 5. Next steps

1

### **Kumba is fully committed to**

- The sharing of information that is critical for the parties to understand key drivers along the entire value chains i.e. from mining through to beneficiation
- Discussing the current constraints that exist along these value chains
- Exploring the possibility of concluding a long term supply agreement that meets the requirements of all stakeholders
  - Kumba to secure a market related and competitive price for its ore
  - Development of South Africa's mineral resource base is optimised
  - The viability and cost competitiveness of the steel industry is not undermined
  - Encourage new entrants into the steel industry
  - Support growth in downstream beneficiation

2

### **Discussions with the Task Team are to focus on key public developmental objectives**

- The viability and cost-competitiveness of local steel production; and
- A competitive steel pricing regime to support the development and deepening of value-added manufactured products in downstream industries

3

### **Any long term solution agreed would be cognisant of the objectives of IPAP II and the impact of such a solution on**

- Job creation and skills development
- Transformation of the iron ore sector and the steel industry
- The creation of a viable and competitive steel industry
- Greater transparency of key inputs into productive processes
- Downstream beneficiation

***Kumba believes that it has demonstrated its commitment to IPAP II and will co-operate with government in identifying reasonable and practical opportunities for promoting the objectives of IPAP II***

*Before any potential long term solution can be reached, the following matters need to be resolved in SIOC's favour*

• *Arbitration with ArcelorMittal regarding the validity of the Sishen Supply Agreement*

• *High Court review of the DMR's decision to award a prospecting right to ICT*

## ■ Appendices

# A. Extracts from the presentation on 16 April 2010

**Job creation  
and skills  
development  
are core  
objectives of  
IPAP II**

**Kumba and  
SIOC are fully  
committed to  
these  
objectives**

## **A.1 Kumba's contribution to South Africa - overview**

- 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 12<sup>th</sup> 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**
- 7 Comprehensive and sustainable social and environmental management**

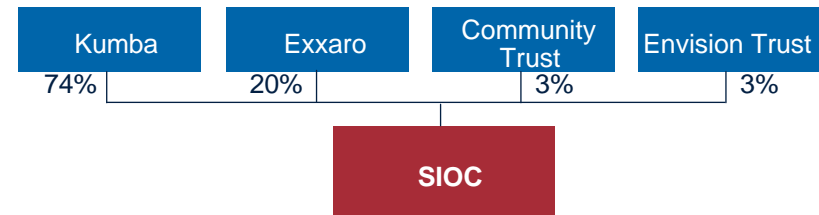
# A. Extracts from the presentation on 16 April 2010

## A.2 Kumba's contribution to South Africa - empowerment

*Job creation and skills development are core objectives of IPAP II*

*Kumba and SIOC are fully committed to these objectives*

**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)

## A. Extracts from the presentation on 16 April 2010

### ***A.3 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**

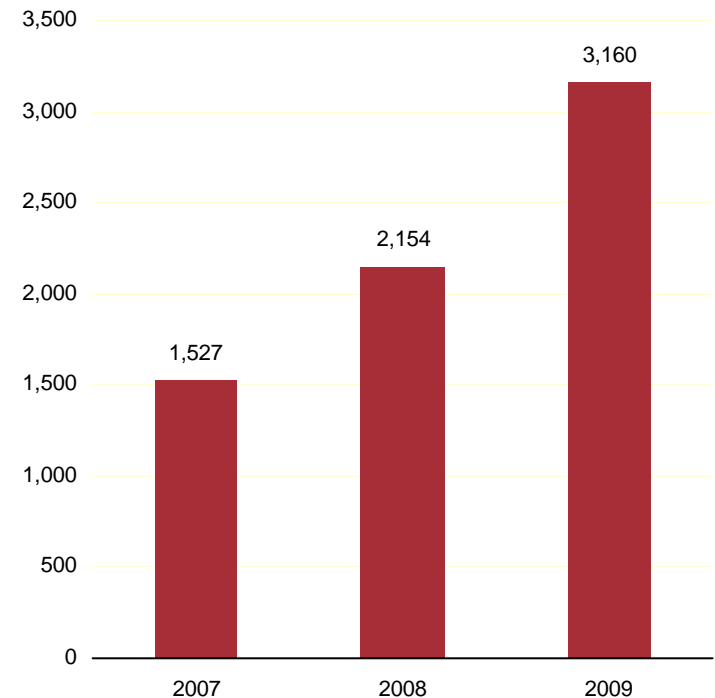
**In 2009, Kumba spent R3.2bn (36.9% of its discretionary spend) with black owned and black empowered vendors**

**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)**



## A. Extracts from the presentation on 16 April 2010

### ***A.4 Kumba's contribution to South Africa - skills development and employment equity***

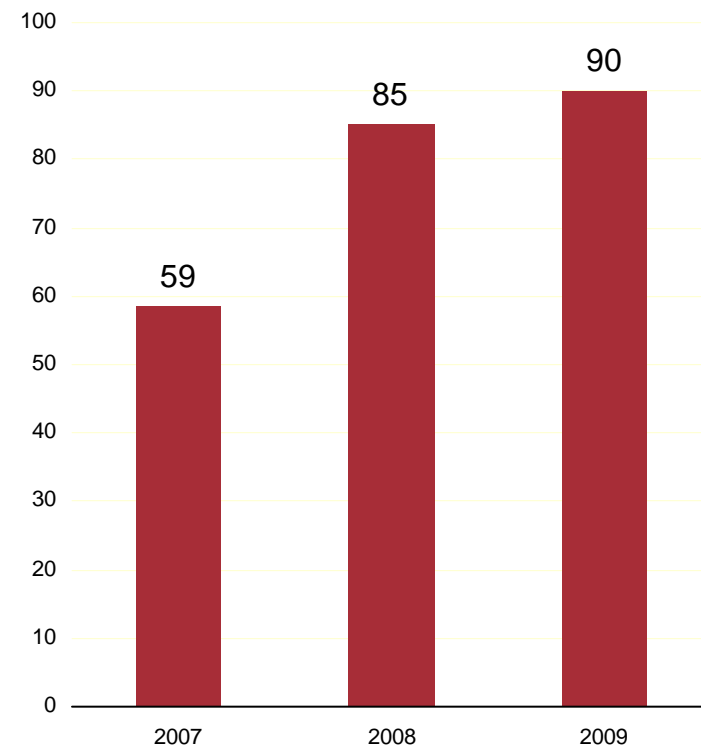
#### **1 Skills development**

- 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**

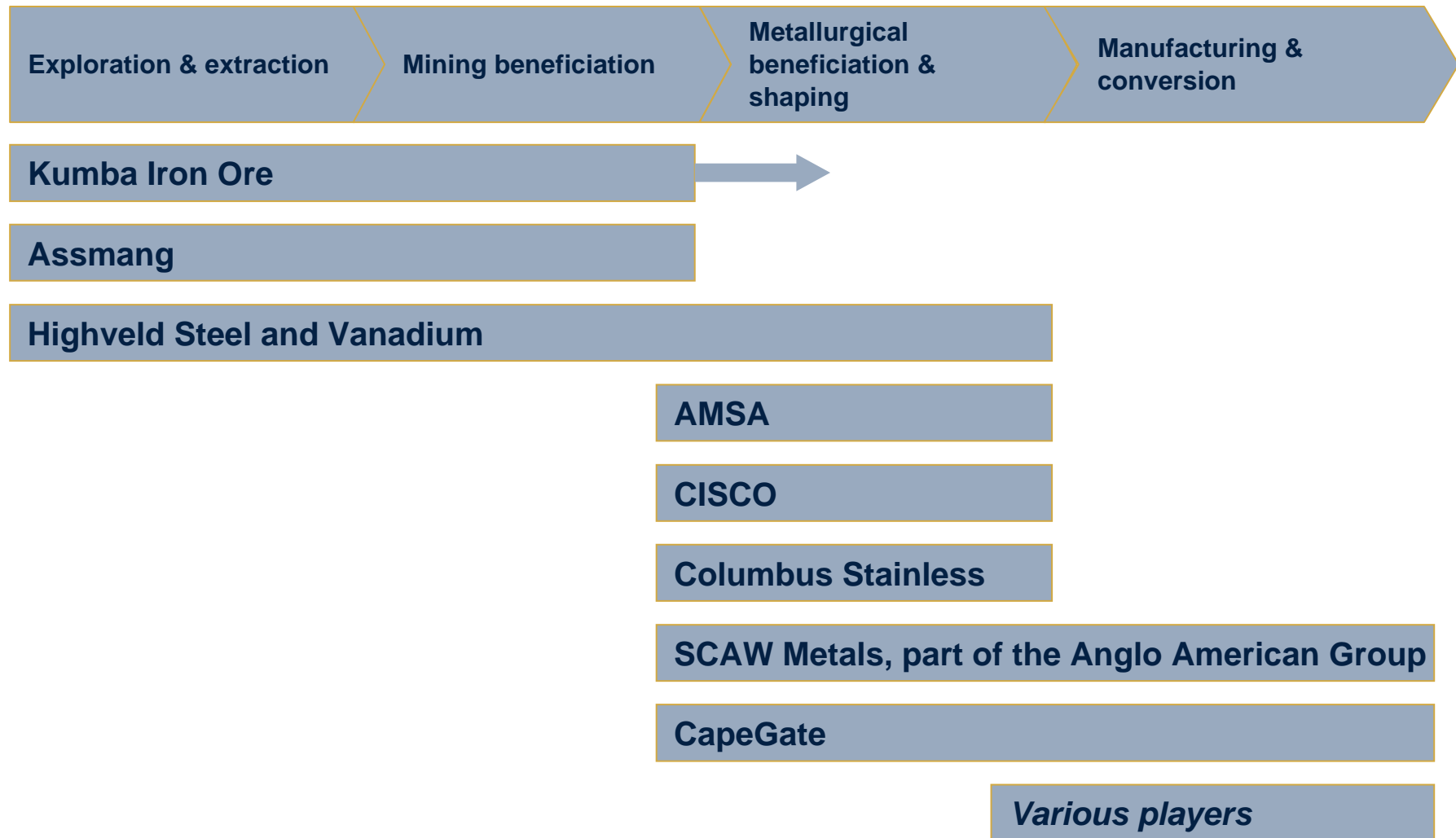
- Black management: 31%
- Total female representation: 14%

#### **Skills development expenditure (R'm)**



# A. Extracts from the presentation on 16 April 2010

## A.5 Kumba's contribution to South Africa - beneficiation



## A. Extracts from the presentation on 16 April 2010

### *A.5 Kumba's contribution to South Africa – beneficiation (continued)*

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



# A. Extracts from the presentation on 16 April 2010

## ***A.6 Challenges to IPAP II – securing ongoing power supply***

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***

# A. Extracts from the presentation on 16 April 2010

## ***A.7 Challenges to IPAP II – securing rail and port logistics***

### ***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***

## A. Extracts from the presentation on 16 April 2010

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### *A.8 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***