

**INTEGRATED REPORT 2011**

# **Towards sustainable partnerships**



## Towards sustainable partnerships



### FRONT COVER: A GOOD EXAMPLE OF SUSTAINABLE PARTNERSHIPS

The focus of the Kumba Integrated Report 2011 is 'Towards sustainable partnerships', allowing the company to engage with and report to all its stakeholders – including shareholders, employees, associated companies, local, provincial and national government, non-government organisations, local municipalities and communities. At Kumba we believe this is a step in the right direction. The company understands that business is more than the profits turned over, and values the place these various partnerships has in the sustainable growth of Kumba.

With this in mind the 2011 front cover features Tshepi Itumeleng and Gloria Rooifontein working together on a routine vehicle inspection at the Leeufontein pit at Kolomela mine. Partnerships such as theirs foster a culture of learning and safety within Kumba, in support of both personal and company growth.



Integrated Report 2011



Annual Financial Statements 2011



Sustainable Development Report 2011



Abridged Integrated Report 2011



Kumba Online Report 2011  
[http://www.angloamericankumba.com/reports/kumba\\_ar2011/index.php](http://www.angloamericankumba.com/reports/kumba_ar2011/index.php)

### Look out for important references in this document

**KPI** Key performance indicator

**AFS** See the corresponding page/s in our Annual Financial Statements

**SD** See the corresponding page/s in our Sustainable Development Report

**www** See the website <http://www.angloamericankumba.com>

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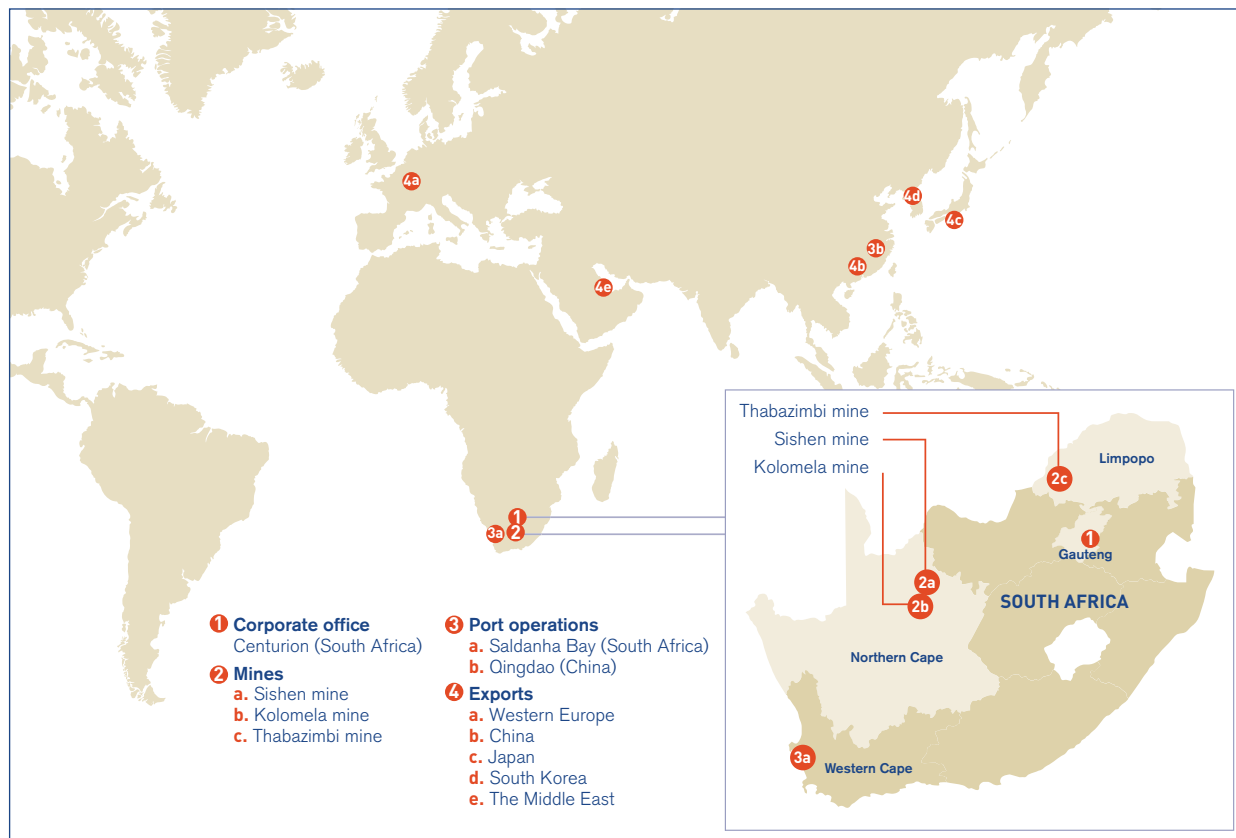
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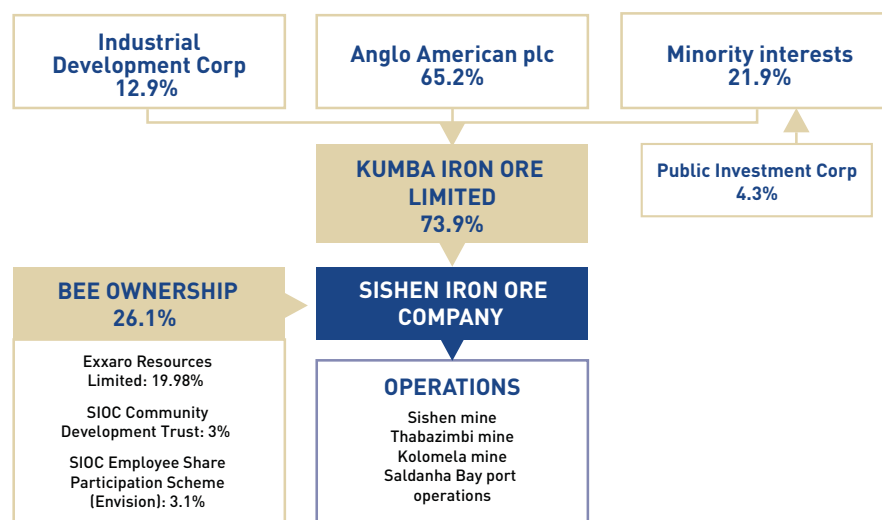
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# BROAD AND MEANINGFUL OWNERSHIP AT ALL LEVELS

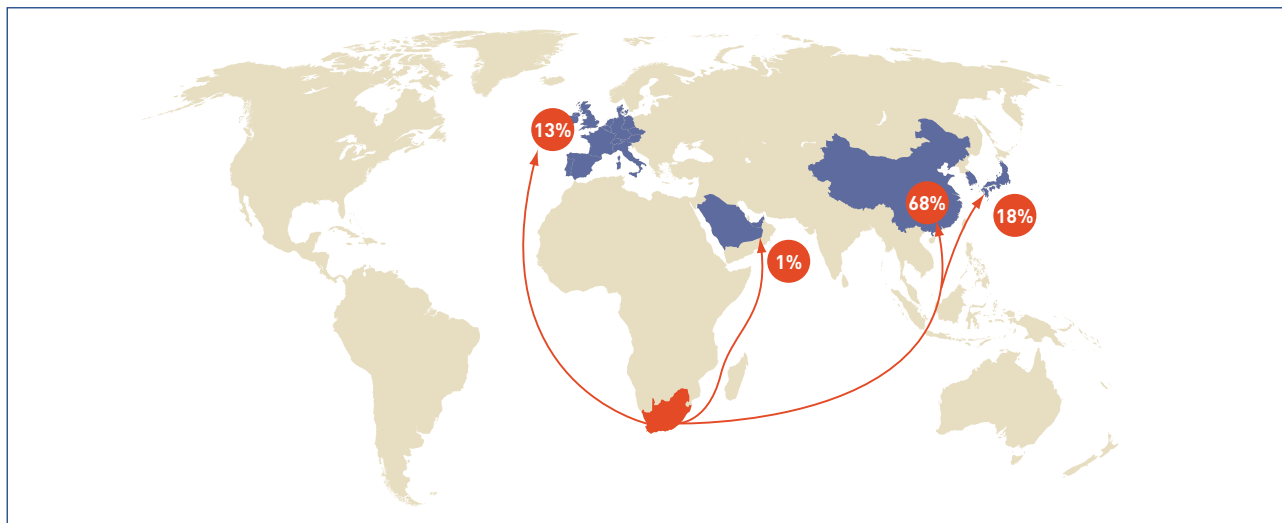
## OUR OPERATIONS



## KUMBA IRON ORE LIMITED GROUP STRUCTURE



## EXPORT DESTINATIONS AND EXPORT VOLUMES



Kumba Iron Ore Limited (Kumba or the group), a member of the Anglo American plc Group, is a leading value-adding supplier of high-quality iron ore to the global steel industry. With its headquarters in Centurion, South Africa, the group holds a 73.9% interest in and manages Sishen Iron Ore Company (Pty) Limited (SIOC) which, in turn, has three mining operations:

- Sishen mine, located near the town of Kathu in Northern Cape Province;
- Thabazimbi mine, situated in the town of Thabazimbi in Limpopo Province; and
- Kolomela mine, a new development in the vicinity of Postmasburg in Northern Cape Province, which was brought into commercial production in December 2011 and is anticipated to produce between 4 million tonnes (Mt) and 5Mt while ramping up in 2012, before reaching design capacity of 9 million tonnes per annum (Mtpa) in 2013.

Both the Sishen and Kolomela mines are long-life operations with current life of mine (LOM) estimates of 21 and 27 years respectively. Thabazimbi mine is reaching the end of its life (planned for 2016), after some 80 years of continuous operation. The Phoenix project, which is adjacent to Thabazimbi mine, is currently at a feasibility stage. Subject to board approval, this project will replace production from Thabazimbi mine. At the end of 2011, the group reported total attributable Ore Reserves of 1,197.7Mt and attributable Mineral Resources of 1,340.4Mt. These are reported in accordance with the South African Code for Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC).

Kumba produced 41.3Mt of iron ore for domestic and export markets in 2011. The export ore is railed via a dedicated iron ore rail link operated by Transnet Freight Rail (TFR), the national transport utility for rail operations, to the port of Saldanha Bay.

In 2011 the company exported 37.1Mt of iron ore from the port of Saldanha Bay to customers in countries and regions around the world, including China (68%), Western Europe (13%), Japan and South Korea (18%) and the Middle East (1%).

The group continues to invest significantly in the development and expansion of its business. In 2011 Kumba spent R5.8 billion on capital – 53% on growth projects and 47% on stay in business capital.

Kumba's South African project pipeline is extensive, with the potential to grow production to 70Mtpa by 2019; Kolomela mine is expected to produce an additional 9Mtpa by 2013 while a further 15Mtpa could come from other Northern Cape Province operations and 5Mtpa from Limpopo Province. As much of this growth potential resides in lower-grade ore, the group is intensely focused on turning this material to account. In the year under review, Kumba announced its intention of seeking growth in other parts of Africa, in a second footprint, most notably west and central Africa, with the aim of growing production by a further 10 to 20Mtpa by 2020.

At the end of December 2011, Kumba employed 11,898 people, comprising 6,303 full-time employees and 5,595 full-time contractors. A further 4,131 fixed-term project contractors were employed on capital expenditure projects during the year.

Kumba, which is listed on the JSE Limited (JSE) in South Africa, had a market capitalisation of R161 billion at 31 December 2011, the eighth largest company listed on the JSE by market capitalisation.

The company's largest shareholder is Anglo American plc, with a 65.2% interest. Also holding a significant stake is South Africa's Industrial Development Corporation (IDC), a national development finance institution set up to promote economic development and growth in the country, which holds 12.9%. The balance (free float) is held largely by institutional investors in South Africa (45%), the United Kingdom (19%), North America (26%) and Europe (5%).

Achieved in a landmark transaction in 2006, SIOC is fully empowered, with a black economic empowerment (BEE) ownership of 26.1%. Through this empowerment structure, Kumba has achieved a significant and broad-based BEE shareholding as set out below. The slight increase in the BEE ownership from 2010 is as a result of the unwinding of the first phase as well as the implementation of the second five-year phase of the Envision scheme.

- Exxaro Resources Limited (Exxaro), a leading BEE company listed on the JSE, has a 19.98% stake.
- SIOC Community Development Trust (CDT) has a 3% unencumbered interest.
- The Envision employee share participation scheme has 3.1%.

# THE INTEGRATED REPORTING JOURNEY

## APPROACH

The Board of Directors' Report for 2010 was Kumba's first step on its journey towards developing a fully integrated report. This journey has continued in 2011.

Kumba recognises that the group has a responsibility to engage with and report to a broad range of stakeholders, including shareholders, employees, customers, communities, suppliers, government, regulatory authorities, unions and the public at large. In this report, the group presents a holistic 'picture' of the business, covering its operating context and markets, the opportunities and challenges it faces, the strategy, the operational, financial and non-financial performance for the year, and objectives and outlook for the year ahead. Issues and concerns raised by stakeholders actively inform opportunities and challenges within the business.

In developing this report, Kumba has applied the recommendations of the King Code of Governance Principles for South Africa 2009 (King III), the Integrated Report Discussion Paper published by the Integrated Reporting Committee of South Africa, as well as the discussion paper, *Towards Integrated Reporting: Communicating Value in the 21st Century*, published by the International Integrated Reporting Committee.

An independent gap analysis of the 2010 report against King III, peer reports and considered integrated reporting best practice also informed the outline and content of the 2011 report. In this report, Kumba has focused on the issues that are considered to be most material to the business and to its stakeholders, and has followed a structured process in determining these. Kumba's approach to stakeholder engagement, the topics raised by its stakeholders, as well as the issues that are most material to the business and its stakeholders are reported on pages 10 and 17 respectively.

This report forms part of a suite of reports produced by the group. This suite comprises:

- the Abridged Integrated Report 2011, including the notice of annual general meeting (AGM), which has been posted to all shareholders;
- this document, the Integrated Report 2011;
- the Sustainable Development Report 2011, which focuses on the economic, social and environmental impacts of the group's business in greater detail;
- the Annual Financial Statements 2011, which reports in detail on the group's financial performance and operating position;
- the Report to Employees 2011, an abbreviated report which focuses on the issues that are important to employees, and
- Kumba's online report 2011, which presents all of the above reports (with downloadable pdfs) on an interactive web platform at [http://www.angloamericankumba.com/reports/kumba\\_ar2011/index.php](http://www.angloamericankumba.com/reports/kumba_ar2011/index.php).

Printed copies of the Integrated Report 2011, Annual Financial Statements 2011 and Sustainable Development Report 2011 are available on request.

Stakeholders are encouraged to provide feedback on Kumba's reporting as this feedback and suggestions will be taken into consideration as the group continues its journey. A feedback form is available in the Sustainable Development Report 2011 and at [http://www.angloamericankumba.com/reports/kumba\\_ar2011/index.php](http://www.angloamericankumba.com/reports/kumba_ar2011/index.php).

## SCOPE AND BOUNDARY

This report provides an integrated review of Kumba for the 2011 financial year, from 1 January 2011 to 31 December 2011. It forms part of a suite of reports that gives an overall account of the group's operational, financial, economic, social and environmental performance, as well as governance, during the period under review. Historical information is supplied for context where appropriate. Also supplied is an outlook where this supports an understanding of the strategy of the business.

The report covers the primary operations owned and managed by the group, namely the Sishen, Thabazimbi and Kolomela mines as well as the group's logistics and marketing operations. Production at the Kolomela mine started during the year under review.

The audited annual financial statements have been prepared in compliance with International Financial Reporting Standards and the International Financial Reporting Interpretation Committee's interpretations of standards; the South African Companies Act No 71 of 2008 (The Companies Act); the Listings Requirements of the JSE Limited; and the AC500 standards as issued by the Accounting Practices Board. The annual financial statements have been audited by Deloitte & Touche. An unmodified audit opinion was issued and is included on page 12 of the Annual Financial Statements. Both the Integrated Report and the Sustainable Development Report have been developed in line with the G3.0 Guidelines of the Global Reporting Initiative (GRI) and GRI's Mining and Metals Sector Supplement. Kumba has declared an A+ level of reporting, and this has been assured by PricewaterhouseCoopers. The assurance statements are on pages 100 and 101.

While Kumba is not a member of the International Council on Metals and Mining (ICMM), Anglo American plc, the group's major shareholder, is, and for this reason the Sustainable Development Report also takes the framework and principles of the ICMM into consideration.

Kumba has internal systems in place for data collation, and these are aligned with the data collation requirements of the Anglo American plc Group of companies. Internal and external audits of the group's systems and data are carried out on a regular basis.

# CORPORATE, FINANCIAL, OPERATIONAL AND SOCIAL PERFORMANCE

## EXCEPTIONAL SAFETY PERFORMANCE

- No loss of life
- 33% improvement in lost-time injury frequency rate (LTIFR)
- Kolomela achieved 22 million lost-time injury-free hours, exceeding 23 months without injury

## LONG-TERM IRON ORE DEMAND ROBUST

- Strong start to year, weaker finish
- 68% of product exported to China

## SOLID OPERATING PERFORMANCE, DESPITE CHALLENGES

- Sishen production of 38.9Mt for the year
- Export sales of 37.1Mt

## ANOTHER RECORD FINANCIAL PERFORMANCE

- Operating profit of R32.0 billion
- Headline earnings of R17.0 billion or R53.13/share
- Record dividend of R44.20/share

## KOLOMELA PROJECT DELIVERED FIVE MONTHS AHEAD OF SCHEDULE, WITHIN BUDGET

## SUBSTANTIAL DELIVERY TO ALL STAKEHOLDERS

- Total Kumba and SIOC dividends paid during 2011 of R17.9 billion
  - Kumba – R13.7 billion
  - BEE shareholders – SIOC – R4.2 billion
- All Social and Labour Plan (SLP) targets met or exceeded, with the exception of hostel conversion
- R191 million\* spent on social and community development (SCD)

## EMPOWERING SOUTH AFRICA

- Envision phase 1 payout of R2.7 billion to employees
- R527 million paid to SIOC CDT
- R6.0 billion (48% of discretionary expenditure) spent with BEE suppliers

## FAVOURABLE HIGH COURT JUDGMENT ON SIOC MINERAL RIGHTS DISPUTE IN DECEMBER 2011

## PROJECT PIPELINE IN PLACE TO DELIVER 70MTPA BY 2019 FROM SOUTH AFRICAN OPERATIONS

## SISHEN AND THABAZIMBI MINES RETAIN ISO 14001 AND OHSAS 1800 CERTIFICATION

## STRATEGY EVOLVED TO INCLUDE BEING AN AFRICAN-FOCUSED GROWTH COMPANY

\* Including inter-Anglo American contributions

### GROUP LTIFR

(per 200,000 hours worked)

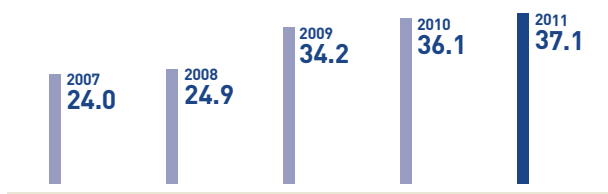


### TOTAL PRODUCTION

(Mt)

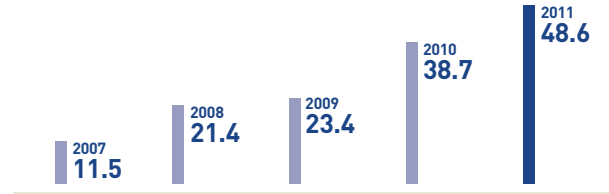


### EXPORT SALES VOLUMES



### REVENUE

(R billion)



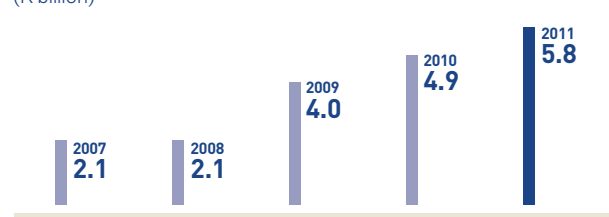
### HEADLINE EARNINGS AND DIVIDENDS

(R/share)



### CAPITAL EXPENDITURE

(R billion)



### KUMBA CLOSING SHARE PRICE (Rand)



# LOOKING BEYOND THE SHORT TERM



Allen Morgan, Interim chairman

“We remain confident that demand for iron ore will continue in the medium to longer term.”

#### HEADLINE EARNINGS

(2010: R44.67 per share)

**R53.13**  
PER SHARE

#### DIVIDENDS

(2010: R34.50 per share)

**R44.20**  
PER SHARE

The year 2011 was an exceptional one for Kumba. Notwithstanding bad weather that hampered mining and constrained production at our Sishen, Thabazimbi and Kolomela mines in the first half of the year and lower iron ore prices in the final quarter, the results speak for themselves:

- Revenue of R48.6 billion, up by 25%.
- Operating profit of R32 billion, up by 27%.
- Headline earnings of R53.13 per share, up by 19%.
- Dividend per share of R44.20, up by 28%.



For the full financial results for the year see [http://www.angloamericankumba.com/reports/kumba\\_ar2011/financials/fin\\_home.php](http://www.angloamericankumba.com/reports/kumba_ar2011/financials/fin_home.php)

## PERFORMANCE REVIEW

Kumba's management team has this business under firm control and has demonstrated this through delivering consistent performance over the past five years, since listing in 2006. We have a passionate management team, with a strong value set that will continue to do well by increasing production from current operations, growing production through new projects, keeping staff motivated, and running the business in a sustainable way.

While we cannot determine market prices, and certainly the latter part of the year was characterised by unwelcome volatility, we remain confident that demand for iron ore will continue in the medium to longer term.

Kumba manages the marketing of its iron ore very well and the group has a long-standing and loyal base of customers. The marketing team is able to respond rapidly to customer needs, addressing specific requirements that add value to their businesses.

## ENVISION BEARS FRUIT

One of the most significant achievements during the year has been the success of Kumba's broad based employee incentive and black economic empowerment (BEE) shareholding. BEE entities comprising Envision, an employee share participation scheme, SIOC CDT and Exxaro, hold a 26.1% interest in SIOC. The first phase of the employee share participation scheme, Envision, came to fruition at the end of 2011. This scheme owes some of its success to the performance of the iron ore market and world stock markets, but also to the hard work and dedication of Kumba's employees. While few could have foreseen the scale of the payouts that were enjoyed by Envision's beneficiaries in 2011, its success and sustainability are by design. The scheme was constructed to recognise the role of individuals as part owners of the company, without reference to the seniority of the person concerned or his/her contribution. All permanent SIOC employees below managerial level at the South African operations are beneficiaries of Envision.



Nelson Sepaela, shovel operator, performing a pre-shift inspection on a shovel at Thabazimbi mine.

At maturity in November 2011 each of the 6,209 qualifying employees received a benefit (before taxation) in the form of cash or shares in Kumba, with the only differentiation being years of service. The benefits ranged in value from R576,045, for employees who joined Envision at inception in November 2006, to R9,558, for beneficiaries first employed in October 2011. Scheme participants received R55,298 each in dividends since the inception of the scheme. This scheme is without parallel in South Africa. Much effort has gone into providing employees with financial training to help them make an informed decision about investing and managing their benefit. I have been very pleased to learn that most employees are planning to use their payouts for home ownership or for education – either for themselves or children. The next capital benefit is expected to flow through to qualifying and new employees in November 2016, when the second five-year phase of Envision matures.

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Similarly, the direct benefits accruing to the communities in the vicinity of our operations through the SIOC CDT have been significant. As reported last year the trust is now unencumbered and is able to focus on investing in these communities (and thus ensure its own sustainability), while at the same time ensuring meaningful benefits for the broadest range of stakeholders who live and work in these communities. Dividend cash flows alone to the trust from SIOC amounted to R526 million during the past year.

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## MINING RIGHTS

Legal proceedings instituted by SIOC in 2010, to protect its rights and the interests of its shareholders, continued during the year.

On 21 December 2011 judgment was delivered in the High Court regarding the status of the mining rights at the Sishen mine. The High Court held that, upon the conversion of SIOC's old order mining right relating to the Sishen mine properties in 2008, SIOC became the exclusive holder of a converted mining right for iron ore and quartzite in respect of the Sishen mine properties. The High Court held further, that as a consequence, any decision taken by the

Department of Mineral Resources (DMR) after such conversion in 2008 to accept or grant any further rights to iron ore at the Sishen mine properties was void. Finally, the High Court reviewed and set aside the decision of the Minister of Mineral Resources or her delegate to grant a prospecting right to Imperial Crown Trading 289 (Pty) Ltd (ICT) relating to iron ore as to a 21.4% share in respect of the Sishen mine properties.

On 3 February 2012, both the DMR and ICT submitted applications for leave to appeal against the High Court judgment. SIOC has noted an application for leave to present a conditional cross appeal, in order to protect its rights. We are awaiting a date for the hearing of application for leave to appeal.

The High Court order does not affect the interim supply agreement between ArcelorMittal South Africa (AMSA) and SIOC, which will endure until 31 July 2012. AMSA and SIOC have agreed to delay the arbitration proceedings in relation to the Sishen Supply Agreement until the final resolution of the mining rights dispute.

The board will continue to engage with government on the development of a beneficiation strategy for the iron ore industry in South Africa.

**www** <http://www.angloamericankumba.com/SIOC/index.php>

## PLANNING FOR THE LONG TERM

The board's role extends well beyond governance of the group, and it has been intensively engaged with management in identifying Kumba's risks and devising its strategy. The board and its supporting committees have interrogated both the approach to, and outcomes of, the risk management processes undertaken by the management team, and the strategy developed to address the long-term sustainability of the group. Resource companies must deal with the fact that their orebodies are finite, that there is a limited period during which any resource can generate direct benefit for surrounding communities, and the extent and the limits of growth are determined by the location and size of additional orebodies discovered or acquired.

## REVIEW BY THE CHAIRMAN



Richard Heyns and Riaan Eilerd, both blasting assistants, preparing to blast at Sishen mine.

Kumba has successfully developed, constructed and commissioned Kolomela mine which must qualify as one of the most significant mining projects to be undertaken in South Africa in recent years, and with an outstanding safety performance. The project was completed within budget and five months ahead of schedule. It is an achievement on which the group intends to build.

The valuable project capacity that has been developed within the group, particularly in the current market, provides an excellent opportunity for Kumba. It will be put to good use, locally in the development of the substantial projects pipeline, and elsewhere in Africa. In addition to our previously announced intention to grow South African production to 70Mtpa, the board this year approved an evolution in strategy – from being a South African growth company (with the potential of reaching 70Mtpa by 2019) to being an African growth company (with an additional 10 to 20Mtpa of production from African projects). We have decided to partner with Anglo American plc in west and central Africa to lessen our financial risk of these large, expensive projects and leverage the combined expertise and skills to improve the potential for success.

Our intention is to seek large-scale, value-accretive assets to create a second footprint in Africa: this is a broadening of focus rather than a shift of focus. Our primary assets are, and will remain, in South Africa and this is where we will continue to deliver on our growth pipeline and leverage technology to unlock value in the beneficiation of the lower grade resources.

The ethos of the group is to seek to meet the needs of the broadest range of stakeholders. The board has identified engagement with stakeholders as a priority and the group is structured and managed in an integrated and holistic way to ensure that our resources

benefit a broad range of stakeholders. Through our empowerment structures, our commitment to the sustainability of local communities and our approach to mining beneficiation, we aim to ensure that our assets contribute to the local and national economies, and that people are empowered to transform their lives. This goal was central to Kumba from inception; it is not the consequence of recent trends.

## STRONG PARTNERSHIPS, STRONG SUPPORT

Through our relationship with our shareholder and partner Anglo American plc, we have access to a vast resource of technical and commercial competency and a valuable source of financial support. We will continue to harness these advantages for the benefit of Kumba's shareholders and in the development of our second footprint. Partnering with Anglo American plc is likely to be the most successful entry strategy in developing a second footprint when the competitive landscape and resourcing capabilities are considered. Sound governance will be applied in support of such partnerships and minority rights will be protected.

## GOVERNANCE

I have continued in my role as interim chairman during the year with the exceptional support of our board and management team, and that of our shareholders. I have agreed to remain in this position until our legal proceedings are finalised, at which time another chairman will be sought and appointed; taking an unambiguous leadership

position at this time is in accord with my responsibility to the group as lead independent director. Since the board has determined that this is in the best interests of the company, I am also continuing to serve on several board sub-committees.

Governance is critically important for Kumba. What do shareholders, and indeed all other stakeholders, seek from non-executive directors and the board as a whole? They expect that such directors have ensured that the group has a sustainable strategy that has been examined and interrogated; that there are controls in place; that risks have been identified and plans devised and implemented for their mitigation; that the principles of good governance are applied; and that there is succession planning. I believe we have achieved all of these.

## INTEGRATED REPORTING

An important feature of our implementation of King III has been the development of this integrated report, 2011 being the second consecutive year in which we have reported in this way. In this report we have elaborated on our approach to managing the company, to identifying and mitigating risks, our strategy, performance and objectives. We have also taken into consideration the views and concerns of our stakeholders, and the material issues presented on page 17 represent a synthesis of our inward- and outward-looking concerns.

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There is still no clear guidance or consensus on what stakeholders would like and need to see in such a report, and we will spend some time in the years ahead finding out whether what we have produced is relevant and meaningful to our stakeholders. While it is important that our reporting is informed by King III and other reporting guidelines, the wishes of our shareholders and stakeholders should play a greater role in determining what we present. Furthermore, we are considering how to ensure that our reporting is accessible, understandable and relevant to the broadest range of our stakeholders.

## GLOBAL ECONOMIC OUTLOOK

The vulnerability of the global economy has become more apparent during the course of 2011. It has been beset by the sovereign debt crises within the European Union. Europe is, however, a small portion of our export market. The slowing economic growth in China towards year end was a result of the tightening in monetary policy which began a year ago. While manufacturing in China has eased, with the construction and steel manufacturing industries in particular having been affected, the Chinese government is likely to manage growth.

In spite of these difficult times, I believe that we can look forward to very exciting years. During this time we will grow our business, with Kolomela mine ramping up to full production of 9Mtpa by 2013. We will address some of our logistical constraints through our constructive association with Transnet; and we should achieve closure with respect to our legal proceedings. This period should see the beginning of a recovery of the global economy and, hopefully, the resolution of the nationalisation debate and uncertain economic policies in South Africa.

## THANKS

In conclusion, I want to pay tribute to the people of Kumba for their efforts during the year. I am very pleased that they have seen direct benefit from the success of the company. I want to thank my colleagues on the board, and, in particular, the chairpersons of the board committees, who have so ably stepped up to the mark in terms of increased governance and scrutiny.

I would like to congratulate Kumba's chief executive, Chris Griffith, and his management team, for their commitment and enthusiasm, and for the vigour with which they have addressed every challenge and opportunity. To Vincent Uren, who stepped down as chief financial officer (CFO) at the end of 2011, I extend the grateful thanks of the board and shareholders. He has been a key component of our success, and I wish him well in his future endeavours. Also to Peter Matlare, who resigned from our board in March 2012, our sincere appreciation for his contribution.

I also welcome Litha Nyhonyha as an independent non-executive director of Kumba from 14 June 2011. Litha is the executive chairman of Regiments Capital (Pty) Ltd and a non-executive director of AECI Limited, and brings a wealth of experience and expertise to the group.



**Allen Morgan**  
Interim chairman

# TAKING STAKEHOLDER ENGAGEMENT TO A NEW LEVEL

Kumba is aware that its ability to conduct its day-to-day business is influenced by its capacity to develop and maintain long-standing relationships with its stakeholders. Stakeholder engagement at Kumba therefore aims to build new, and improve existing relationships, to establish key partnerships and to obtain support for the company's activities. Hence the theme of this report: 'Towards sustainable partnerships'.

In its approach to engaging with identified stakeholders, the company adopts the principles of transparency, integrity and accountability, and reports timeous, relevant and meaningful information to all stakeholders. The socio-economic assessment toolbox (SEAT) guides the identification of, and Kumba's interaction with, its community stakeholders. Community development is further prescribed by the commitments made in the company's social and labour plans (SLP). In line with the requirements of the Mining Charter, Kumba ensures that its policies and practices are aligned with the integrated development plans of local municipalities.

## IDENTIFYING KEY STAKEHOLDERS

During the year, Kumba completed a formal stakeholder identification process to identify those groups and individuals who

have an interest in the company, and with whom the company regularly engages. A stakeholder engagement policy was also developed and approved by the Executive Committee in December 2011. This will be rolled out across the group in 2012.

In identifying its stakeholders, Kumba has developed a matrix of those groups and individuals who are directly and indirectly associated with the company, including employees, shareholders, customers, suppliers, unions, government and regulatory authorities, neighbours and community members from communities in which we operate.

Kumba's stakeholder relationships are underpinned by structured, strategic and transparent engagement processes and a genuine willingness to achieve mutually beneficial outcomes.

Extensive and ongoing engagement, both formal and informal, is undertaken by the board at a strategic level and by various disciplines. The table below illustrates some of these interactions.

A more detailed review of stakeholder engagement is available in our Sustainable Development Report 2011.

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Description of key stakeholders	Discipline	Comment
<b>Shareholders, analysts and potential shareholders have an interest in the company's performance.</b>	Investor relations	Shareholders are encouraged to attend the company's results presentations and participate in the AGMs, at which they have access to the board, and to raise issues of concern or interest directly with the company through various means of communication, investor and analyst meetings, site visits and company presentations. Kumba's management team engages directly with investors and key analysts during roadshows. Kumba's major shareholders, Anglo American plc and IDC, are also engaged at a board level and their inputs are sought on key issues.
<b>Relations with employees and unions are governed by recognition agreements.</b>	Human resources	Employees are encouraged to raise issues of concern and interest via the formal and informal structures in place, including through the human resources discipline, line management and union structures. Two-way communication channels are used to consult with the unions. Senior executives have access to the board and are expected to represent employees at this level.
<b>Kumba engages with a broad range of interested and affected parties, including national, provincial and local government representatives, non-governmental organisations (NGOs), farmers, business partners, media representatives and opinion makers.</b>	Public affairs	Kumba participates in various industry associations either directly or through its association with Anglo American plc. Other means of engagement include one-on-one discussions, company announcements, site visits and focus group forums, and through the media and other company publications.
<b>Kumba engages with groups and individuals from the communities that surround its operations who are directly affected by or have a direct impact on the company's operations, or who have an interest in the group.</b>	Social and community development	Engagement takes many forms including one-on-one discussions, group dialogues and briefings, local, provincial and national focus group forums, community consultations and internal publications.
<b>Kumba exports iron ore to around 30 customers in more than 10 countries.</b>	Marketing	The company engages with current and potential customers in a number of ways that involve active, well-established two-way communication. These include formal presentations, road shows, company announcements, feedback reports, site visits and customer satisfaction surveys.
<b>Developing suppliers is one of Kumba's priorities. A number of programmes, designed to train local and historically disadvantaged South African suppliers, are in place.</b>	Supply chain management	One-on-one meetings, open days and stakeholder forums are held to communicate company policy and procedures. Development programmes are discussed to encourage two-way engagement between Kumba and its suppliers.

## MANAGING RISK AND RISK FACTORS

# FOSTERING A RISK-AWARE CULTURE

## KEY RISK FACTORS

### Our approach

Kumba recognises that risk is an inherent and unavoidable aspect of its business. The company fosters a risk awareness corporate culture in all decision-making, and is committed to managing risk in a proactive and effective manner through a competent risk management framework. To support this commitment, risk is analysed in order to inform management decisions taken at all levels within the group. The principles of the risk analysis and management process are set out in the Kumba Risk Policy and Standard.

Management of risk is critical to the success of the company given its exposure to a wide variety of risks which could have a financial, operational and reputational impact on the group. Effective management of risk supports the delivery of Kumba's strategic objectives.

The approach to the management of risk incorporates the following key steps:

- identifying the key and emerging risks that could have a significant impact on the ability of the group to achieve its strategic objectives;
- analysing risks and controls;
- ensuring that appropriate controls and responses are put in place to mitigate identified risks;
- monitoring the effectiveness and implementation of controls; and
- reporting regularly to the Executive Committee, the Risk Committee and the board of directors.

### Roles and responsibilities

The Risk Policy and Standard is supported by an integrated framework of risk governance and reporting, which regulates how the group manages the handling of risk. Through the combined assurance framework, critical processes, risks to these processes and assurance providers, are identified. Management is responsible for monitoring the progress of actions taken to mitigate key risks and reporting on this to the Risk Committee and the board.

Management is also responsible for the group's system of internal controls and for annually reviewing its effectiveness in providing shareholders with a return on their investment that is consistent with a responsible assessment and mitigation of risk. This includes reviewing strategic, financial, operational and emerging risks, and compliance controls and risk management procedures, and their effectiveness.

## KUMBA'S RISK MANAGEMENT PROCESS

### Identification of risks

A consistently applied methodology is used to identify key risks at group business units, operations and projects. The risk management process involves holding risk workshops, at least once a year, at business units and sites, as well as a workshop at the crucial stages of every project. Key risks are updated regularly.

The Risk Committee facilitated a board risk workshop in 2011, in which the board identified headline risks to be mitigated and managed.

### Analysis of risks and controls

Once a risk is identified, the process seeks to evaluate impacts, whether these are of a financial or non-financial nature, to determine what might cause them to occur and to assess the likelihood of their occurrence. Consideration of current controls to mitigate those risks is also undertaken in order to draw up a prioritised register of risks.

### Determination of management actions required

If additional controls are required, these will be identified and responsibilities assigned.

### Reporting and monitoring

Management is responsible for monitoring the progress of actions to mitigate key risks and is supported by the group's internal audit programme which evaluates the design and effectiveness of controls to mitigate key risks. The results of the key risk management process are reported to the Executive Committee every month and to the Risk Committee and board every quarter.

Headline risk areas are:

1. Regulatory, political and legal aspects
2. Infrastructure
3. Ore Reserves and Mineral Resources
4. Environment
5. Employees' safety and health
6. Employees
7. Impact on communities
8. Foreign exchange
9. Commodity price and demand
10. Operational performance

# MANAGING RISK AND RISK FACTORS

## KEY RISK FACTORS

### 1. Regulatory, political and legal

Kumba's businesses may be affected by political or regulatory developments, including changes to fiscal regimes or other regulatory regimes, in any of the countries and jurisdictions in which it operates.

Root cause	Impact	Mitigation
<p>Mining operations and development and exploration projects are subject to extensive legislation and regulations. Legislation of this nature could allow governments where Kumba currently operates to extend fiscal regimes. This could affect the economic viability of a mining project and/or operation, place security of tenure in jeopardy, threaten expansion, put investment at risk and harm the reputation of Kumba and the mining industry.</p> <p>Kumba's subsidiary SIOC is involved in legal action over the mineral rights of Sishen mine.</p>	<p>Unforeseen changes to legislation, regulations and standards could impact on Kumba's licence to operate and increase the cost of production. Failure to comply with regulatory requirements could result in the revocation of Kumba's consents, licences and other rights required to conduct its business. Legal disputes may affect Kumba's reputation, relations with government and key stakeholders as well as future earnings and cash flows. Poor relationships with stakeholders may lead to those stakeholders not having a clear understanding of Kumba and not giving the company their support.</p>	<p>Kumba monitors regulatory developments and either draws up or updates applicable policies and procedures to ensure compliance. All necessary actions are being taken by Kumba management to protect the interests of the company, its employees and shareholders from legal disputes. Kumba promotes early engagement with its stakeholders in terms of a defined policy.</p>

### 2. Infrastructure

Inability to obtain adequate support installations and facilities, and related services with respect to infrastructure (the areas of water, power, roads, railways and ports, for example).

Root cause	Impact	Mitigation
<p>Kumba does not own or operate any of the logistical assets required to transport its products. Kumba exports iron ore to international customers through a single channel rail and port. Labour and other operational risks associated with managing the rail and port operators' assets fall outside Kumba's direct control.</p>	<p>Inadequate support installations and facilities, and related services, principally in the areas of rail, port, power and water, may affect the sustainability or growth of the business, leading to a loss of competitiveness, market share and reputation.</p>	<p>Kumba promotes the early development of integrated strategies and alignment with the infrastructure owner/operator. It fosters the development of relationships by participation in industry groups, ongoing engagement at the highest level with key suppliers and service providers, and by lobbying to ensure effective service from key utility providers.</p>

### 3. Ore Reserves and Mineral Resources

Kumba's Ore Reserves and Mineral Resources are subject to a number of assumptions which may be incorrect.

Root cause	Impact	Mitigation
<p>All assumptions related to Ore Reserves and Mineral Resources are long term in nature and are subject to volatility owing to economic, regulatory or political influences.</p> <p>Mining by its nature depletes finite resources. In Kumba's case, the company's resource base is primarily in South Africa (Northern Cape and Limpopo provinces).</p>	<p>Failure to maintain or enhance existing reserves or develop a sufficient number of new operations could negatively affect Kumba's strategic objective of delivering on growth projects and, ultimately, on its prospects for the future. Resource exploration and development are speculative in nature and characterised by a number of significant risks.</p>	<p>Kumba is experienced in managing Ore Reserves and Mineral Resources and has robust procedures to reduce the likelihood of significant variation. All factors are consistently monitored by management. New mining properties are identified through an active exploration programme while current operations are expanded by the application of technology to beneficiate lower-grade iron ores. Kumba is investigating a second mining footprint.</p>

### 4. Environment

Kumba operations may pose environmental risks in the form of dust, noise or leakage of polluting substances from site operations and uncontrolled breaches of tailing dam facilities. Any impact on air quality, water purity and the land could cause harm to employees and surrounding communities.

Root cause	Impact	Mitigation
<p>The mining process, including blasting and the processing of orebodies, can generate dust and noise and requires the storage of waste materials in liquid form.</p>	<p>Potential impacts could result in harm to the environment, water purity, air quality, employees, surrounding communities, fines and penalties and statutory liabilities for environmental remediation. There may be other financial consequences that could be significant. Any underestimated or unidentified rehabilitation costs will reduce earnings and could materially and adversely affect Kumba's asset values, earnings and cash flows.</p>	<p>Kumba has a well-developed culture of compliance and risk management. Against the background of applicable legislation, these activities are closely monitored to limit the impact its operations have on the environment. This extends to electricity consumption, carbon dioxide emissions, water quantity and quality, dewatering, biodiversity, waste rock dumps, non-mineral waste, hydrocarbon spillage and dust emissions.</p>

## 5. Employees' safety and health

Failure to maintain high levels of safety may result in harm to employees, contractors and communities near Kumba's operations.

Root cause	Impact	Mitigation
<p>Mining is a hazardous activity. Kumba operates in a sector that is subject to numerous safety and health regulations. A significant growth in mining and production volumes and a consequential increase in employee and contractor numbers across the group, increases the risk of injuries.</p> <p>Exposure to noise and dust are the most significant occupational health risks facing Kumba, given the hazard profile of the business. HIV/AIDS infections and failure to comply with evolving regulatory health standards and adopt high levels of health management pose further health-related risks for Kumba.</p>	<p>Failure to maintain high levels of safety can result in harm to employees, contractors and communities near Kumba operations and damage to the environment. Failure to meet safety objectives may be contrary to the company's values, impact on its reputation as a good citizen, affect the morale of employees, the achievement of production targets and the group's licence to operate. Kumba's reputation could be damaged and this would have significant consequences for a wide variety of stakeholders, including investors, government and trade unions.</p>	<p>Kumba places a very high priority on safety, investing considerable resources in maintaining and raising standards and constantly reviewing practices to improve safety performance at all its operations.</p> <p>Health-related risk mitigation includes improved occupational hygiene practice through the allocation of sufficient resources (equipment, competent people, facilities and quality assurance systems); improved medical surveillance programmes in order to distinguish between workplace noise-induced hearing loss, noise-induced hearing loss that is not caused by the job an employee does and hearing loss caused by a particular medical condition; and implementation of corporate hearing conservation programmes and standards as well as the implementation of dust suppression programmes.</p> <p>Kumba provides anti-retroviral drugs and confidential counselling and testing (CCT) to employees with HIV/AIDS and runs education and awareness programmes to help prevent employees and members of their families becoming infected or spreading infection. Kumba also implements a disease management programme providing employees, contractors and communities with medication and related therapy.</p>

## 6. Employees

The inability to recruit, develop and retain appropriate skills, the risk of potential strikes or other industrial relations disputes.

Root cause	Impact	Mitigation
<p>Kumba is, to a great extent, reliant on the large number of people employed in its operations.</p> <p>Despite Kumba's good relations with bargaining unit employees and their trade unions, the group remains exposed to risks posed by organised labour disruptions and disputes.</p> <p>The strong commodity cycle and the large number of projects being developed in the resources industry have led to an increased demand for skilled personnel.</p>	<p>Failure to retain skilled employees or to recruit appropriate new staff members may lead to increased costs, interruptions to existing operations, and delays in the developing of new projects.</p> <p>A labour disruption could result in production and financial losses while a high employee turnover could result in the loss of critical skills and corporate memory.</p>	<p>Kumba seeks to mitigate the threats posed by a unionised workforce through a process of constructive dialogue with trade unions and the maintenance of effective working relationships.</p> <p>Kumba recognises that the war on talent is about to increase and a number of strategies have been implemented to attract, retain and develop best talent. The company continues to make refinements to its human resources activities to ensure that Kumba remains attractive to prospective employees.</p>

## 7. Impact on surrounding communities

Mining operations affect communities in close proximity to Kumba operations.

Root cause	Impact	Mitigation
<p>Dewatering associated with mining activities at Sishen and Kolomela mines, along with the Dingleton community's proximity to the mining operation at Sishen mine, may have impacts on Kumba's organisational responsibility and capability.</p>	<p>Dewatering results in the depletion of underground water – the main source of water for surrounding farmers. The Dingleton community's proximity to the mining operation poses both safety and health risks to the community. This could result in fines, penalties and liabilities to third parties for injuries.</p>	<p>Kumba has developed comprehensive processes to enable its business units to effectively manage relationships with communities and actively seeks engagement with all communities affected by its operations. Kumba has commissioned groundwater impact studies to address dewatering. There is continuous engagement with the Dingleton community representatives regarding the resettlement.</p>

## MANAGING RISK AND RISK FACTORS

### 8. Foreign exchange

Kumba is exposed to currency risk where transactions are not conducted in rands.

Root cause	Impact	Mitigation
Kumba's iron ore export prices are determined in US Dollars and the company negotiates iron ore prices in that currency with customers.	Transactions denominated in foreign currencies expose Kumba to exchange rate fluctuations and could result in economic or accounting losses.	Kumba sells US Dollar export proceeds on a short-term rolling forward basis with the view of reducing any short-term cash borrowings and matching the cash requirements of the company on a day-to-day basis. US Dollar export proceeds act as a natural hedge for operating activities while major capital expenditure is hedged.

### 9. Commodity price and demand

The price of iron ore is subject to wide fluctuations.

Root cause	Impact	Mitigation
Fluctuations in the price of iron ore and the freight rate can occur. These reflect underlying global economic and geo-political factors, industry demand and supply balances, and product substitution. Demand for Kumba's products is influenced strongly by world economic growth, particularly in Europe and Asia (notably China). Kumba remains dependent on robust economic growth in China which, in turn, ensures substantial demand for iron ore.	Kumba's exposure to China's economic fortunes and economic policies has increased. Lower economic growth in China could have a negative impact on Kumba's revenues, cash flows, profitability and asset values. If commodity prices remain weak for a sustained period, Kumba's ability to deliver growth in future years may be adversely affected as growth projects may not be viable at lower prices.	Kumba manages this risk through constant monitoring of the markets in which it operates. This includes examining such aspects as economic growth, iron ore supply and demand, and the implications these have for spot price of iron ore and movements in the freight rate.

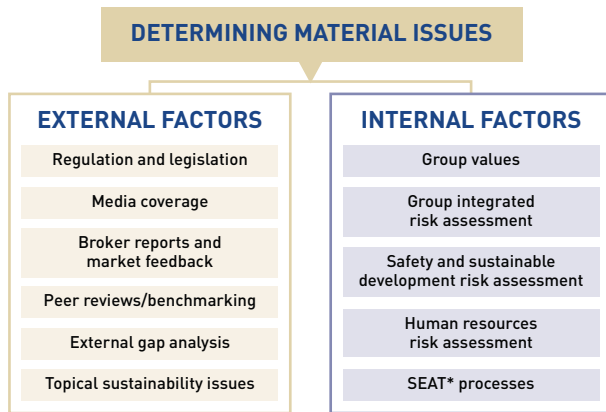
### 10. Operational performance

Failure to meet production targets and/or project delivery times and costs.

Root cause	Impact	Mitigation
Kumba's operations are subject to the risks and hazards normally encountered in opencast mining operations. These risks include environmental hazards, such as unexpected geological pressures and ground subsidence, and operational risks relating to materials handling, industrial accidents, blasting and removing material from opencast pits. Mining and beneficiation processes also rely on key inputs, for example, fuel and electricity.	If any of these risks should materialise, such an event could result in serious harm to employees and contractors, delays or losses in production, increased production costs and a possible increase in liabilities.	A number of strategies have been implemented to mitigate this, including management oversight of operational and project performance through regular briefings, increased effectiveness of procurement activities through participation in the Anglo American plc Supply Chain and other asset optimisation business improvement initiatives to reduce costs
Appropriate insurance can provide protection from some, but not all, of the costs that may arise from unforeseen events.	Disruption to the supply of key inputs, or changes in their pricing, may have a material and adverse impact on the value of Kumba's assets, costs, earnings and cash flows.	Kumba has also established project delivery and management practices and capabilities to ensure project delivery ahead of schedule and below projected costs.
Kumba seeks to develop new mining properties and expand its existing operations as a means of generating shareholder value. Unanticipated delays and complications with respect to the execution of projects along with an increasing demand for regulatory, environmental and social approvals may result in significant increases in construction costs and/or delays in construction.	Failure to meet production targets could result in increased unit costs. The impact would be more pronounced at operations with high fixed costs.	
	Significant increases in construction costs and/or delays in construction could materially and adversely affect the economic viability of projects and consequently affect the value of Kumba's assets, costs, earnings, cash flows and prospects.	

In determining and developing the contents for this report, Kumba has adopted a methodical approach to identifying and reporting on material issues. GRI has been used to guide this process, in which internal and external issues have been considered. In line with GRI, Kumba has defined material issues as "topics and indicators that reflect the organisation's significant economic, environmental and social impacts, or that would substantively influence the assessments and decisions of stakeholders".

Kumba recognises the subjective nature of the threshold at which an issue is deemed to become material and that this involves a combination of financial factors and potential reputation impacts. It is a reflection not only of the company's view of the world, but also that of its stakeholders, and takes into consideration the level of stakeholder concern and interest, the impact of the issue on the company and the impact of the company on the issue. Some of the inputs into this process are indicated in the diagram below.



\* Socio-economic assessment toolbox

These issues were documented, considered and extensively discussed and interrogated at an internal materiality assessment workshop. The issues were reviewed firstly by the heads of disciplines and the Executive Committee, and then by the Safety, Sustainable Development, Social and Ethics (SSDS&E) Committee and the Audit Committee.

These material issues were then tested against the outcomes of a board-level review of group risks and opportunities, which were interrogated during a two-day board risk and strategy workshop.

The outcome of this process has been the delineation of the following six material issues, which form the basis of the report that follows.

## MATERIAL ISSUES

- Ensuring the **ongoing financial sustainability** of the business, with a focus on asset performance and optimisation, managing market volatility, securing growth and the success of the SIOC employee share participation scheme (Envision) and the SIOC CDT.
- Ensuring the **safety and health** of our employees and contractors at work.
- **Retaining legal access** to our mineral rights.
- **Complying** with regulatory and minerals legislation.
- **Securing access to people, resources and infrastructure**, including skills, water and energy, land and rail infrastructure.
- Actively **engaging** with communities and **managing their expectations**.

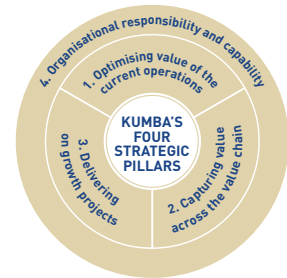
Kumba will continue to review these issues, and will endeavour to engage with stakeholders to ensure that we are addressing their most significant concerns.

## STRATEGIC INTENT

Kumba is an African growth company that seeks to maximise total shareholder value by optimising the value of its current operations, capturing value further down the value chain, executing its growth projects and ensuring that it has the resources and capabilities to carry through its strategy in a responsible and sustainable way.

Kumba seeks to grow its business through projects aimed to achieve production of 80 to 90Mtpa of iron ore by 2020; 70Mtpa from South Africa and 10 to 20Mtpa from the rest of Africa. The group conducts its business in a way that promotes the well-being of its people, preserves the environment and cares for the welfare of the communities in which it operates.

The discussion that follows will present Kumba's performance against its strategy, and set key objectives for the year ahead.

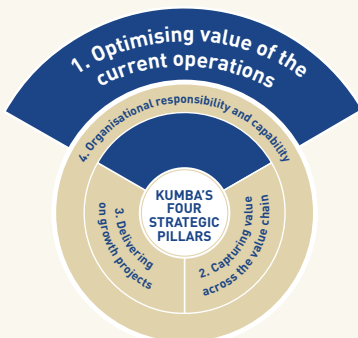


## STRATEGY

Following an intensive strategic review in 2011, Kumba reaffirmed its commitment to the four pillars of its strategy.

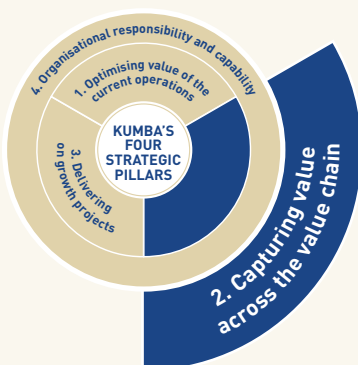
### 1. OPTIMISING VALUE OF THE CURRENT OPERATIONS

by pursuing a value-maximising product portfolio that seeks the best fit between market demand and its resources. Kumba will contain unit costs, and improve productivity and operational efficiencies through its asset optimisation programme. The group will use its technical expertise and resources to drive a technology strategy that achieves a competitive advantage by increasing the exploitation of lower-grade ore resources, securing growth from South African and future African resources.



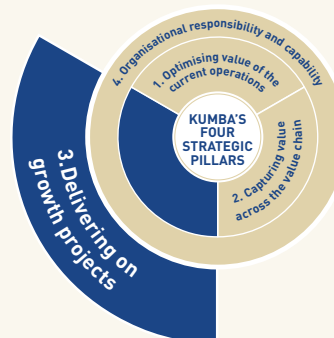
### 2. CAPTURING VALUE ACROSS THE VALUE CHAIN

by exploiting the physical properties of its ore to develop niche lump-sized products, pursuing an optimal iron ore pricing mechanism, and securing a balanced geographical spread of customers to maximise profits and minimise risk. The group's Ocean Freight Management strategy will create value and protect free-on-board margins through the use of various long-term freight instruments and potential investment in ships and through port stockpiles. Kumba will investigate blending opportunities at its current operations, ports of origin and/or destination to enhance ore utilisation and achieve optimum product value.



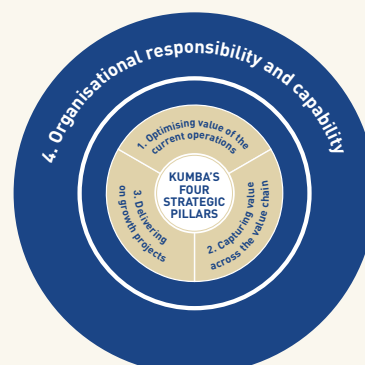
### 3. DELIVERING ON GROWTH PROJECTS

through their successful execution. In South Africa, Kumba will pursue greenfields and brownfields growth targets and seek to use its existing lower-grade resources, as well as securing and protecting the requisite logistical capacity in the short, medium and long term at economical tariffs. The group will seek value-enhancing volume growth in Africa, with a particular focus on west and central Africa, in partnership with Anglo American plc.



### 4. THROUGH ITS ORGANISATIONAL RESPONSIBILITY AND CAPABILITY

Kumba will seek to create and leave a positive legacy in the communities in which it operates, and, through its commitment to safety and health, environmental management and corporate social investment, become the partner of choice for the broadest range of stakeholders. Kumba's structure, resources and competencies will be aligned to ensure delivery of its current and emerging strategy of being a leading African growth company.



# FIVE YEAR OPERATING AND FINANCIAL RESULTS

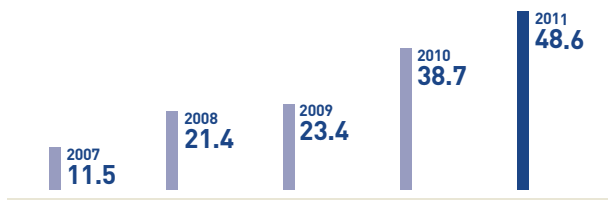
	2011	2010	2009	2008	2007
<b>Summary balance sheet (R million)</b>					
Non-current assets	22,238	16,798	12,031	8,205	6,085
Current assets	12,175	11,077	5,776	8,498	3,793
<b>Total assets</b>	<b>34,413</b>	<b>27,875</b>	<b>17,807</b>	<b>16,703</b>	<b>9,878</b>
Shareholders' equity	15,833	14,338	7,306	6,859	2,736
Non-controlling interest	4,759	4,038	1,650	1,647	661
Non-current liabilities	5,843	6,129	6,609	3,351	2,869
Current liabilities	7,978	3,370	2,242	4,846	3,612
<b>Total equity and liabilities</b>	<b>34,413</b>	<b>27,875</b>	<b>17,807</b>	<b>16,703</b>	<b>9,878</b>
<b>Net (cash)/debt</b>	(1,551)	(1,670)	3,023	48	2,578
<b>Summary income statement (R million)</b>					
<b>Revenue</b>	<b>48,553</b>	<b>38,704</b>	<b>23,408</b>	<b>21,360</b>	<b>11,497</b>
Export sales	42,454	32,951	18,657	17,547	9,064
Domestic sales	3,388	2,874	1,359	1,401	1,348
Shipping operations	2,711	2,879	3,392	2,412	1,085
<b>Operating expenses</b>	<b>(16,587)</b>	<b>(13,573)</b>	<b>(10,528)</b>	<b>(7,847)</b>	<b>(5,519)</b>
<b>Operating profit</b>	<b>31,966</b>	<b>25,131</b>	<b>12,880</b>	<b>13,513</b>	<b>5,978</b>
<b>Operating margin (%)</b>	66%	65%	55%	63%	52%
<b>Effective tax rate (%)</b>	25%	24%	24%	28%	27%
<b>Cash generated from operations (R million)</b>	32,843	25,555	12,744	14,519	5,805
<b>Capital expenditure (R million)</b>	5,848	4,723	3,996	2,563	2,119
<b>Capital commitments (R million)</b>					
Contracted	1,988	1,727	2,392	2,090	589
Authorised but not contracted	2,168	4,965	6,755	8,753	1,185
<b>Earnings/dividends</b>					
Headline earnings (R billion)	17,048	14,328	6,972	7,276	3,143
Basic headline earnings (R/share)	53.11	44.67	21.87	23.02	10.00
Dividend (R/share)	44.20	34.50	14.60	21.00	7.50
Interim	21.70	13.50	7.20	8.00	3.50
Final*	22.50	21.00	7.40	13.00	4.00
<b>Market information</b>					
Closing share price (Rand)	500	425	305	162	285
Market capitalisation (R million)	161,030	136,652	97,727	51,753	90,374
Market capitalisation (US\$ million)	19,686	20,611	13,224	5,482	13,281
<b>Net asset value (R/share)</b>	49.16	44.54	22.80	21.63	8.63

\* The final dividend was declared after 31 December 2011 and has not been recognised as a liability in the annual financial statements for the year ended 31 December 2011. It will be recognised in shareholders' equity for the year ending 31 December 2012.

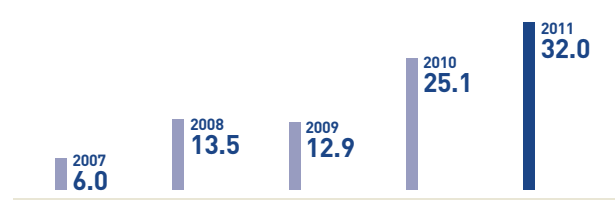
	2011	2010	2009	2008	2007
<b>Operating statistics</b>					
<b>Production (Mt)</b>					
Sishen mine	38.9	41.3	39.4	34.0	29.7
Thabazimbi mine	0.98	2.0	2.5	2.7	2.7
Kolomela mine	1.5	–	–	–	–
<b>Sishen mine free on rail (FOR) unit cost</b>					
Unit cost (R/tonne)	178.90	128.65	111.12	110.77	79.90
Cash cost (R/tonne)	150.47	113.69	98.83	101.86	74.32
Unit cost (US\$/tonne)	24.68	17.62	13.24	13.43	11.37
Cash cost (US\$/tonne)	20.75	15.57	11.78	12.35	10.57
<b>Stripping ratio</b>					
Sishen mine	2.6	1.99	1.78	1.41	1.68
Thabazimbi mine	25.8	16.6	5.3	2.8	5.8
Kolomela mine	7.1	–	–	–	–
<b>Logistics (Mt)</b>					
Total volumes railed to port of Saldanha Bay (including Saldanha Steel)	39.1	36.5	34.6	28.1	24.5
Total volumes loaded at port	37.6	36.7	34.6	25.0	24.2
<b>Sales volumes (Mt)</b>					
Export sales	37.1	36.1	34.2	24.9	24.0
Domestic sales	6.4	7.0	5.8	8.1	8.9
<b>Life of mine (years) (including inferred resources)</b>					
Sishen mine	21	20	21	Not reported	Not reported
Thabazimbi mine	6	6	6	Not reported	Not reported
Kolomela mine	27	28	28	Not reported	Not reported

**REVENUE**

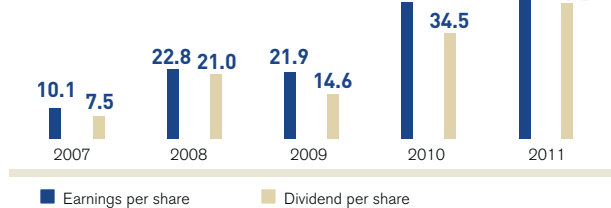
(R billion)

**OPERATING PROFIT**

(R billion)

**ATTRIBUTABLE EARNINGS AND DIVIDEND PER SHARE**

(Rand)

**SISHEN MINE UNIT CASH COST**

(R/tonne)



# ECONOMIC AND NON-FINANCIAL DATA

## STAKEHOLDER ENGAGEMENT

- New stakeholder engagement policy developed and approved, and being implemented
- SEAT for Sishen and Kolomela mines published
- Significant progress made with Dingleton resettlement planning, in line with IFC guidelines

## GOVERNANCE OF SUSTAINABILITY

- First integrated report published
- Sustainable development report published with A+ level of reporting, checked by GRI
- King III adopted
- Ongoing legal action in respect of mineral rights dispute – judgment handed down in December 2011

## ECONOMIC PERFORMANCE

- Dividends of R17.9 billion (2010: R10.7 billion) distributed to shareholders
- Envision payout of R2.7 billion to employees
- R6.0 billion discretionary procurement expenditure spent with BEE suppliers, which is above Mining Charter requirements

## SOCIAL PERFORMANCE

### Safety

- No loss of life
- LTIFR improved by 33% to 0.08 per 200,000 hours worked
- 23 lost time injury-free months at Kolomela mine
- Sishen and Kolomela mines retained Occupational Health and Safety Assessment Series (OHSAS) 18001 certification

### Employment

- 86% of employees represented by unions or collective bargaining agreements
- No significant disputes or work stoppages
- 80 hours of training per employee (2010: 46 hours)

### Human rights

- No human rights disputes
- Continued signatory to the United Nations Global Compact

### Social and community development

- All SLP targets met or exceeded, with the exception of hostel conversion
- R191 million\* spent on SCD in 2011 (2010: R134 million)

## ENVIRONMENT

- Sishen and Thabazimbi mines retained ISO 14001 certification
- Rehabilitation provision of R568 million

\* Including inter-Anglo American contributions

## KEY STATISTICS

	2011	2010	2009	2008	2007
<b>ECONOMIC PERFORMANCE</b>					
Salaries and wages paid to employees (R billion)	2.4	2.1	1.7	1.4	1.0
Taxes paid to government (R billion)	7.0	7.0	3.2	4.3	1.4
Mineral royalty paid to government (R billion)	1.7	1.4	–	–	–
<b>SOCIAL PERFORMANCE</b>					
<b>Safety</b>					
Fatalities	0	3	1	1	1
LTIFR (per 200,000 hours worked)	0.08	0.12	0.07	0.12	0.22
<b>Health and well-being</b>					
Total number of new cases of occupational lung disease (OLD)	2	0	0	0	0
Total number of new cases of noise induced hearing loss (NIHL)	17	1	5	1	1
Estimated enrolment of estimated HIV-positive employees in disease management programmes (DMPs) (%)	51	83	100	Not reported	Not reported
Total number of employees participating in anti-retroviral treatment (ART)	178	1,907	1,667	123	93
<b>Employment</b>					
Number of employees and contractors	11,898 <sup>1</sup>	11,206	10,852	10,260	4,600 <sup>2</sup>
HDSAs in management (%)	49.8	46.0	44.3	41.6	37.5
Women in core mining positions (%)	11.9	10.9	7.6	5.2	Not reported
<b>Social and community development</b>					
Total amount spent on social and community development (R million)	191 <sup>3</sup>	134	41	79	70
<b>ENVIRONMENT</b>					
Total CO <sub>2</sub> e emissions (scope 1 and 2) (000t)	907	837	701	574	518
Total energy used (million GJ)	7.05	6.37	5.06	4.27	3.89
Total amount of water used for primary activities (million m <sup>3</sup> )	8.2	8.7	9.7	8.0	8.3

## ACCOLADES

- Kumba won the top award in the sustainability category and was a joint winner in the socio-economic category at the Nedbank Green Mining Awards
- Kumba received the 'fast growth company award' for investing in people, environment, sustainability and governance at the Annual African Access National Business Awards
- Kumba's Responsibility Report 2010 was ranked first in the best sustainability report category at the South African Publication Awards
- Kumba was placed third in the Sunday Times Top 100 companies, for its returns to shareholders over five years
- Kumba was ranked sixth in the Financial Mail Top Companies 2011 Review
- Kumba was placed tenth in the Ernst and Young Excellence in Corporate Reporting

<sup>1</sup> This figure excludes 4,131 project contractors and 753 employees in the company's talent pipeline

<sup>2</sup> Excludes contractors

<sup>3</sup> Including inter-Anglo American contributions

# SUBSTANTIAL BENEFITS FOR STAKEHOLDERS



Chris Griffith, Chief executive

“2011 saw . . . substantial benefits for a broad range of stakeholders”

The year 2011 saw the continued refinement and implementation of our strategy which ensured substantial benefits for a broad range of stakeholders. Importantly, we achieved, or exceeded, most of our key objectives.

- **We significantly improved our safety performance.**

Pleasingly, we are able to report a year of operation without a fatal accident, and a substantial improvement in our underlying safety performance. Our LTIFR improved by 33% to 0.08 per 200,000 hours worked. This was at a time when the number of project contractor employees on site had risen to a high of 25% of the total of 16,029 people on our sites.

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- **We achieved production of some 41.3Mt during the year**, a decrease of around 5% compared with the previous year. This was predominantly attributable to the loss of 59 days of production in the first quarter of the year as a result of exceptionally high rainfall. Production from the dense media separation (DMS) plant decreased by 6% year on year, owing to a lack of mining feedstock that constrained its output. The jig plant, where production of 3.5Mt per quarter had been achieved for the last three quarters of 2011, continued to operate above its nameplate capacity and recorded a 2% increase year on year. Kolomela mine produced 1.5Mt for the year. Although production was lower, we were able to increase our export sales from 36.1Mt in 2010 to 37.1Mt in 2011 by utilising stockpiled ore from Sishen mine.
- **We ensured the delivery of the Kolomela project into production**, five months ahead of schedule and within budget and, significantly, with an outstanding safety performance.
- **We recorded exceptional financial returns as we were able to capitalise on continued robust market conditions.** Kumba realised a 26% weighted average increase in export iron ore prices, resulting in record revenue of R48.6 billion, a rise of 25% on 2010. Operating profit of R32 billion was 27% higher while headline earnings per share went up by 19% to R53.13 per share.
- **Our returns of significant cash to shareholders by way of dividends amounted to R17.9 billion.** Total shareholder return (a combination of share price appreciation and dividends paid) over the past five years amounted to R511 per share, making Kumba one of the top-performing shares on the JSE.
- **We made significant progress in delivering to stakeholders of our black economic empowerment (BEE), transformation and community initiatives.** Significant milestones were reached in 2011, including:
  - **KPI** the conclusion of the first phase of our employee share participation scheme, Envision, with R2.7 billion paid to employees in December 2011. In total, 6,209 employee shareholders received significant cash payments, with an employee of five

years' service receiving over R570,000 before tax. We have now launched the second five-year phase of Envision.

- **KPI** exceptional returns to the SIOC CDT, which is currently valued at in excess of R9 billion, is completely unencumbered after just four years and received R527 million in dividends during 2011;
- continued transformation of our workforce, way beyond the Mining Charter targets; and
- achievement of all of our local economic development targets set in our SLPs, with most targets having been exceeded.

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## ENGAGING WITH STAKEHOLDERS

The Board of Directors' Report 2010 was our first step towards integrated reporting, a format that recognises the interdependence between financial and non-financial performance, and our obligation to report on both these aspects to a broad range of stakeholders, including shareholders, employees, government, unions, communities, customers and suppliers.

The Integrated Report 2011 is the continuation of that journey. In that report we seek to provide stakeholders with insight into our strategic intent, show how our strategy will enable us to achieve our goals, and discuss the issues and uncertainties, both positive and negative, that we face. The report not only reflects on the year that has passed, but also provides historical context. For the first time since Kumba's listing, we are able to provide five-year performance data. At the same time, we have indicated our objectives for the year ahead and, in some cases, beyond that, although readers will be well aware that the achievement of these objectives will depend to a great extent on the market and other issues outside our control. We welcome feedback from our stakeholders on this report.

While we continue the integrated reporting journey, it is important to stress that the process of integration in itself is not new to Kumba. Since inception, we have considered the triple bottom line, taking cognisance of the financial, social and environmental parts of the business and giving the same weight to each aspect. This is simply the way we run the company; integrated reporting provides the platform to communicate this.

**KPI** On page 10 of this report, we provide greater detail on the way in which we engage with stakeholders, and the material issues identified. In this materiality assessment, we have attempted to synthesise the issues which have been identified by both the group and its stakeholders as worthy of consideration and reporting. Overall, our stakeholder relationships are sound and are underpinned by structured, strategic and transparent engagement processes, and a genuine willingness to achieve mutually beneficial outcomes. The theme of this report – 'Towards sustainable partnerships' – signifies our desire to pursue this journey with our stakeholders.

We are concerned that we are still involved in legal action with other parties and, most importantly, the resources regulator. We recognise that legal action can undermine and strain such relationships, and considered this very carefully before proceeding. Our decision to proceed was taken to protect the interests of our shareholders, including employees and communities; to seek certainty in minerals legislation; to protect the integrity of our business and, ultimately, to protect fair business practice in South Africa. That said, we continue to engage constructively with the DMR, the Department of Trade and Industry (DTI) and the Department of Economic Development (DED) during the course of our business to attain mutually beneficial solutions in the interests of South Africa as a whole. Our

engagement with the DMR in respect of safety has been particularly beneficial, and we appreciate the input that the DMR has had in supporting our safety, health and environmental performance during the year.

## BUSINESS INSIGHTS – ISSUES THAT ARE MATERIAL TO KUMBA

Kumba's risk management process is intensive and thorough, and identifies key risks that could have a material impact on the business now and in the future. Further, the board applies itself on an annual basis to the review, identification and consideration of macro risks, taking a broad, 'helicopter' view. The outcome is a robust risk register, which in turn specifies mitigating measures and the processes to ensure their review, monitoring and reporting (see page 11).

At the same time, Kumba is cognisant of stakeholders' interests and concerns, which have been raised through our extensive formal and informal processes and structures. A considered combination of the business's key risks and the issues raised by stakeholders are addressed as material issues (see page 17). It should be noted that this list has been compiled to assist stakeholders in delineating and understanding the issues facing the group, but this process is inevitably subjective and possibly simplistic. Stakeholders wishing to attain a holistic picture of our business are referred to our comprehensive suite of reports, available on our website.

All of the material issues identified are addressed by our four-pillar strategy (see page 19).

Clearly outside of our control are the impacts of the global economy and iron ore market on our business, and the regulatory and investment climate created by the state.

With respect to the latter, it is important to recognise that, while certainty is important for business, it is equally important for the regulator. Regulatory uncertainty around mineral rights, overlapping responsibilities between departments for environmental compliance, and frequently changing regulation and a lack of clarity (for example in respect of government's beneficiation strategy), all have an impact on our business and mining in general – directly and indirectly – and on the state's ability to focus on achievement and performance. We are comforted that the Minister of Mineral Resources recently announced steps to reduce uncertainty.

Existing and potential investors in particular continue to raise concerns about the nationalisation debate in South Africa. Government has acknowledged that nationalisation is not the solution to the country's 'evil triplets': poverty, unemployment and inequality. We believe firmly that mining companies have a role to play in working with government to find solutions to these challenges. Our relationships with communities and regional and local government in the Northern Cape and Limpopo provinces are excellent examples of this. What we need to do is increase the ownership of mining assets by ordinary citizens, and to develop more, profitable mines so that we can create economic and social capacity and wealth.

While 2011 was coloured by a high degree of political uncertainty, both as a result of the mineral rights litigation and the nationalisation debate, a number of senior government ministers have made attempts to calm the waters and assure investors that South Africa is a secure investment destination. In particular, the Minister of Mineral Resources has introduced new measures to ensure mineral rights are administered in a transparent and legal manner.

# CHIEF EXECUTIVE'S REVIEW OF THE YEAR

## THE MARKET IN 2011

The fundamentals of the global iron ore industry have been excellent for the past three years and we believe that this environment will persist for the foreseeable future, albeit at somewhat subdued levels. The market supply/demand relationship has been tight, with supply of iron ore constrained amid rising demand from the global steel industry.

As was expected, we experienced solid demand growth from China, and this is likely to continue as the demand for steel to support urbanisation and infrastructure development continues to drive the demand for iron ore. China accounted for 68% of Kumba's export sales in 2011. In effect though it was a year of two halves: a strong start in the first six months, with a weaker finish. Global crude steel production rose by 6% in 2011 as a whole, up by 7% in China and up by around 4% in Kumba's traditional markets (Europe, Japan and Korea). However compared to the first half of the year, global steel production declined in the second half by 6% in China, and by 4% in Europe, Japan and Korea.

Eurozone contagion presents a threat that could affect demand in a manner similar to that following the market crisis of 2008. Such a situation would, I believe, be temporary, although there is the potential for a negative effect on steel prices, giving rise to production cutbacks, with a consequent impact on iron ore demand and pricing. Already we have seen European production reduced by up to 20% towards the end of the financial year, although it is of note that mills currently appear to hold less iron ore stock than was the case in 2008, thereby potentially muting the overall impact on demand. We remain confident of our ability to place our ore, although the impact on prices will, of course, affect all producers.

## DELIVERY OF OUR STRATEGY

In 2011, we undertook once again a thorough review of our strategy through a consultative process, taking new and emerging issues into account and updating our view of the global economy and iron ore market, as well as of other external factors that affect our business. I have been very encouraged by the robust nature of the process and pleased with its outcomes.

Our strategy has evolved during the year under review: we have moved from being a **South African company** focused on growth, to becoming an **African growth company**, with the potential for much more ambitious growth from a second, African footprint. We have set our sights on the mineral-endowed west and central African region and we will keep our stakeholders informed of progress on this in due course.

The four pillars that underpin our strategy have been enhanced, but have not materially changed. In the nature of integrated reporting, we will report here and in the pages that follow, against the progress made.

## Optimising the value of existing operations

The first pillar of our strategy seeks to optimise and create additional value from our existing operations. In doing so, Kumba continues to focus its operations on Zero Harm, operational excellence, productivity increases and efficient operations.

Achieving this optimisation is currently a critical factor at Sishen mine, where management is facing a challenging period. The western-dipping orebody requires increased waste stripping and tight pit conditions constrain face length which, in turn, limits flexibility and production. Maintaining production levels (tonnages

and grades) while having to strip approximately 20% more waste per annum for the last two to three years has, inevitably, had an adverse effect on costs.

Sishen mine's productivity improvement project, 'Bokamoso' continues to deliver efficiency and productivity improvements. A total of 18Mt of material, previously discarded as waste, was processed in the jig plant during the year, producing 13.5Mt of ore, and contributing 35% towards production. We intend to increase production volumes incrementally through our growth projects to optimise output.

In spite of its relatively insignificant contribution to Kumba's profit, the same method and approach apply at Thabazimbi mine, which is nearing the end of its life. Since we still have a responsibility to this operation and to our single customer, it remains incumbent on management to extract maximum value from this depleting orebody. This includes the stripping of ever-increasing amounts of waste.

## Capturing value across the value chain

This element of our strategy aims at participating in the significant logistics value chain to extract value and limit costs, as well as to maximise the competitive advantage of the quality of our lump ores, allowing the company to achieve premiums on niche products by improving customers' furnace efficiencies.

The benefits of a global, dedicated marketing organisation are clear for this aspect of our strategy. Particularly important is the close relationship that has developed between our marketing and technical specialists and our customers. This is an area we will continue to develop in the year ahead, with a special focus on niche products, blending opportunities, adaptive pricing mechanisms and broadening our portfolio of shipping instruments.

## Delivering on growth projects

We are very pleased with the progress made at Kolomela mine, and, in particular, that the team was able to complete this project five months ahead of schedule and within budget. The plant was successfully commissioned during the year, delivering production of some 1.5Mt by year end. Kolomela is on track to produce between 4Mtpa and 5Mtpa in 2012 while ramping up, and is expected to reach design capacity of 9Mtpa in 2013.

Our stated growth target of producing 70Mtpa from South Africa by 2019 is intact:

- 9Mtpa will come from Kolomela in 2013;
- 15Mtpa could come from other projects in the Northern Cape Province; and
- 5Mtpa potential from the Phoenix and Zandriverspoort projects in Limpopo Province.

The South African growth pipeline consists of a variety of projects, mostly from lower-grade resources: Sishen-B grade, Kolomela expansion, SEP1B, Sishen concentrates and Sishen lower grades (see page 65). Achieving this target is, of course, dependent on these projects satisfying governance milestones, including technical and financial hurdle rates, at viable capital costs and an expansion of the state-owned rail and port networks at acceptable tariffs.

Good progress has been made with the Phoenix project, with the feasibility study to be completed in 2014. Kumba regards the Phoenix project, which is located within the Thabazimbi mining rights area of which SIOC is the mining rights holder, and is a separate ring-fenced development, separate from the remainder of the Thabazimbi mine, from a commercial and technical perspective.



Nonveliso Boboyi, tippler operator, and Lettie Ntozini, tippler assistant operator, in the control room at Saldanha Bay, off-loading the iron ore wagons from the Northern Cape.

While this is not growth in the truest sense as it will be replacing the ageing Thabazimbi mine, it is not a 'captive' operation as AMSA has previously elected not to participate in this project.

**KPI** The support by the board to pursue offshore options and, in particular, to target certain areas of west and central Africa has been critical. Both near-term production projects and early-stage and greenfield exploration opportunities are in our sights and several desktop studies and due diligence assessments in prospective iron ore regions have commenced. In the current market, project prices are high and we will be mindful not to overpay for either resources or projects.

We have established a small, dedicated African team to lead this initiative and we have announced that we will partner with Anglo American plc in potential projects. This partnership is particularly important given the experience and expertise that Anglo American plc brings to the table, and the strength of their balance sheet which will reduce the risk that one of these big African projects will bring.

The year under review saw a solid operational performance on the IOEC, while good progress was made on the expansion of the line from 47Mtpa to 60Mtpa. Our portion of the 13Mtpa growth of this line makes provision for 9Mtpa from Kolomela mine. The Kolomela rail link was completed ahead of schedule by TFR, which enabled the first train to leave Kolomela mine on 17 November, five months ahead of schedule. We have also been able to take advantage of some of the excess capacity on this line during the year, albeit by incurring 'super tariffs'.

We have continued to engage extensively with TFR regarding the further expansion of the rail line capacity to beyond 60Mtpa. A pre-feasibility study to take the rail line beyond 60Mtpa is expected to be completed in early 2012. A feasibility study – to be funded jointly by TFR and the iron ore producers – should take a further year to complete. It is our view that the current plans and targets remain realistic and achievable.

## Organisational responsibility and capability

**KPI** At the heart of this element of our strategy is our desire to be a responsible and reliable corporate citizen, and recognition that we must earn our licence to operate. We understand, too, that we can only sustain our current performance if we have a stable and capable organisation that is performance-driven.

A separate sustainable development report is available on our website. This report has been developed in line with the G3.0 Guidelines of the Global Reporting Initiative (GRI) and takes into account the Mining and Metals Sector Supplement. Kumba has declared an A+ level of reporting for the year, and this, together with certain KPIs, has been assured by external assurance providers, PricewaterhouseCoopers, and by GRI.

While our sustainable development report 2011 provides an extensive account of our strategy, our performance and our objectives, I would like to focus on a few aspects.

The most significant commitment we make as a company is to look after the safety of our employees. Regrettably safety performance was the one negative blight on our performance in 2010, but 2011 saw a significant improvement, in that our operations were free from any loss of life and our LTIFR improvement was just reward for the tremendous effort that went into this aspect of our business. This brings the total reduction in LTIFR since the first year in operation to 64%.

We are very pleased with the results of our BEE transaction. In just five years it has delivered:

- To **Exxaro**, a leading, independent BEE company, dividends of some R10.4 billion since November 2006, which has contributed to that company's positioning as a growing and sustainable business (and now one of the top 20 companies on the JSE).
- To **employees**, an unparalleled financial benefit that has the potential to provide long-term opportunities and security to them and their families. Since inception, the Envision Trust has received

## CHIEF EXECUTIVE'S REVIEW OF THE YEAR

around R1.2 billion by way of dividend flow, of which R993 million was used to pay off its initial loan and R279 million has been paid directly to employees (an average of R55,000 per employee). In December 2011, the 6,209 participants in the Envision scheme received a payout of up to R576,045 each before tax, the largest return of any employee share participation scheme in South Africa to date.

- To the **SIOC CDT**, an unencumbered and sustainable model of community development, a total of some R1.6 billion, of which R558 million has been allocated for the direct benefit of the community now that the funding has been paid off.

It is also pertinent to note that the company has paid dividends of some R4.2 billion to the IDC and some R0.9 billion to the Public Investment Corporation (PIC) during this period. The IDC is a national development finance institution set up to promote economic growth and industrial development, and is owned by the South African Government under the supervision of the Department of Economic Development. The PIC manages pension, provident, social security, development and guardian funds for public sector entities. It is wholly owned by the South African Government, with the Minister of Finance as its shareholder representative.

It is very difficult to establish a direct link between the payouts of the Envision scheme and productivity. But, in comparison with our sector, the degree of industrial action has been low. Real conversations about the impact of lost production are taking place across the group, so while this probably does not govern everyday behaviour, it has most certainly translated into employees knowing and understanding that they are co-owners of the company, and will certainly contribute to retraining our workforce.

While Envision has been an important part of our employee strategy at Kumba, and the second phase will continue in this vein, our efforts in respect of training and development and the employment of locals have been significant factors in securing a skilled workforce in a skills-constrained environment. By the end of 2011, we had met and exceeded almost every target set by the Mining Charter at all operations. The percentage of historically disadvantaged South Africans in management had risen to 49.8% by year end, while women made up 11.9% of employees working in core mining activities (16.6% of all employees in the group are women). This compares very favourably with the Mining Charter targets of 40% and 10% respectively. Kumba has invested around R42.6 million in meeting our SLP commitments in 2011 and, notwithstanding the significant dividend flow to SIOC CDT, we will continue with our social spend and commitments.

**SD** See our value-added statement on page 36.

In our commitment to minimising the environmental impacts of our operations, we place a great deal of emphasis on responsible water usage and recognise that our operations are located in water-scarce regions. Dewatering of our open pits is one of the most significant issues facing us on the environmental front as this inevitably has an impact on the surrounding groundwater reservoir – an issue on which we engage continually with neighbouring farmers. A positive consequence of this is that 7.1 million m<sup>3</sup> of the water we extract in the Northern Cape Province was provided in 2011 to the Sedibeng Water Authority for use by local municipalities and other users in the region.

Good progress has been made with the management of both legacy and current hydrocarbon issues.

Reducing and optimising energy usage remain key objectives, and we are considering new options to invest in renewable energy as part of our focus on doing business in a sustainable way. Kumba again participated in the Carbon Disclosure Project (CDP) survey, and we have integrated the CDP considerations and measures into our reporting.

We recognise that mining does affect the environment. In all areas of our business – water and energy usage, waste and rehabilitation – we are working to minimise these effects and offset our impact in other ways. With respect to rehabilitation, we have undertaken a number of biodiversity offset initiatives at Sishen and Kolomela mines.

## GOVERNANCE

That a great deal of attention has been focused on the governance of companies is important. I am confident that our governance structures at Kumba are well embedded, and our board is most diligent in its attention to this. In 2009 and again in 2010 we undertook extensive gap analyses of our compliance with the King Code on Governance for South Africa 2009 (King III), the guidelines of which the group formally resolved to adopt. Our compliance with King III is reported in the corporate governance section on page 88.

On page 94 of this report, we have provided details on remuneration. Each Kumba employee has defined personal objectives, and most of these are linked to a variety of triple-bottom-line measurements, including transformation objectives, environmental objectives, and energy and water savings targets.

## MINERAL RIGHTS UPDATE

It is pleasing to report that – in mid-December – Kumba's subsidiary, SIOC, succeeded in its legal challenge of the award by the DMR of 21.4% prospecting rights over Sishen mine to ICT.

On 21 December 2011 final judgment was delivered in the High Court regarding the status of the mining rights at the Sishen mine. The High Court held that, upon the conversion of SIOC's old order mining right relating to Sishen mine properties in 2008, SIOC became the exclusive holder of a converted mining right for iron ore and quartzite in respect of the Sishen mine properties. The High Court held further that, as a consequence, any decision taken by the DMR after such conversion in 2008 to accept or grant any further rights to iron ore at the Sishen mine properties was void. Finally, the High Court reviewed and set aside the decision of the Minister of Mineral Resources or her delegate to grant a prospecting right to ICT relating to iron ore as to a 21.4% share in respect of the Sishen mine properties.

On 3 February 2012, both the DMR and ICT submitted applications for leave to appeal against the High Court judgment. SIOC has noted an application for leave to present a conditional cross appeal, in order to protect its rights. We are awaiting a date for the hearing of application for leave to appeal.

In a related matter, the arbitration to resolve SIOC's commercial dispute with AMSA regarding the supply contract has been postponed until the final resolution of the above review. The interim supply agreement remains in place until 31 July 2012 and will need to be renegotiated if the arbitration has not been completed by then.

## ADDING VALUE, SEEKING GROWTH – OUTLOOK FOR 2012 AND BEYOND

As I indicated at the outset of this review, our strategy remains in place. We will continue to focus on those areas of our business that we can control – on ensuring that we optimise delivery from our existing operations, focus on the value chain, continue to grow and create a sustainable organisation that can support these.

While iron ore prices are likely to decline in the medium term, we expect to achieve price levels at which we will continue to enjoy substantial and sustainable margins. By way of illustration, our



Selby Mngomezulu, process controller, has just finished an inspection of the track leading to the load-out station at Kolomela mine.

operating profit margin over the past five years has ranged from 52% to 66%, with a margin of 66% having been achieved in 2011. Temporary spikes and troughs are to be expected as the market reacts to global issues, but our niche product and pricing strategies, and the geographical spread of our customers will go some way towards securing a continued competitive advantage. In this respect, the timing of Kolomela mine's start-up is certainly advantageous.

While we would hope that the year ahead brings greater certainty on a number of fronts, realistically we could be facing a difficult global economic environment. That said, we remain committed to delivering value to our broad base of shareholders. Our policy is to return excess cash to shareholders, although our dividend cover may be reviewed from time to time in line with market circumstances.

Our targets for 2012 are to:

- operate safely, without any loss of life, and with a further 20% improvement in our LTIFR;
- continue to produce nameplate capacity volumes from Sishen mine's DMS and jig plants;
- limit the cost increases due to the increased waste stripping at Sishen mine, by delivering on our asset optimisation and procurement programmes;
- continue to seek ways to optimise our business using the skills and resources of the people in our business;
- deliver 4Mt to 5Mt from Kolomela mine in 2012 and ramp up to full production of 9Mtpa in 2013;
- continue project studies to fulfil our growth objectives in South Africa and beyond;
- maintain our relationships with customers to enable the company to place our ore at the right price;
- resolve the legal proceedings in respect of mineral rights and the Sishen supply agreement;
- care for our people and communities, and their development; and
- develop and sustain mutually beneficial partnerships with all our stakeholders.

## IN CONCLUSION

Kumba's performance in 2011 is a credit to the people in our business and associated with our business – our partners, employees, contractors, suppliers, customers and communities. It is fitting that our employees and communities have benefited in a meaningful way through Envision and the SIOC CDT, and I am confident that these mechanisms will continue to deliver value.

I would like to thank our board, which has been very supportive of our executive management team, and has also significantly applied itself to the governance of the company and, in particular, to meeting the recommendations of King III and the new South African Companies Act in letter and in spirit.

Finally, I would like to pay a special tribute to my colleague, friend and fellow board member, Vincent Uren, who retired as CFO of the group at the end of 2011. Vincent has made an invaluable contribution to both Kumba and Anglo American plc over a period of more than 20 years. We have benefited from his experience and his wisdom, and he leaves behind a good team that knows what it needs to do. We are fortunate to retain Vincent's expertise in an advisory capacity until the legal cases have been concluded.

**Chris Griffith**  
Chief executive

# SIGNIFICANT DISTRIBUTIONS TO SHAREHOLDERS



Vincent Uren, Chief financial officer

“The group has again posted outstanding financial results”

This review comprises a commentary on Kumba's key financial performance indicators for the year ended 31 December 2011. For a more comprehensive and detailed account of the group's financial position and performance this review should be read in conjunction with the Annual Financial Statements 2011, and the Kumba website at [http://www.angloamericankumba.com/reports/kumba\\_ar2011/financials/fin\\_home.php](http://www.angloamericankumba.com/reports/kumba_ar2011/financials/fin_home.php).

The group has again posted outstanding financial results and has delivered exceptional returns to all its shareholders. This performance is based largely on our ability to respond to the continued robust demand for our product, by growing export volumes in a year where we experienced production challenges owing to adverse weather and constrained pit conditions at Sishen mine. Our financial performance was negatively impacted by the cost of planned increased waste stripping and above inflationary escalation of key input costs. Despite this cost pressure Sishen and Kolomela mines hold healthy positions on the lower half of the free on board (FOB) cash cost curve.

Kumba realised a 26% weighted average increase in export iron ore sales prices and a 3% increase in export sales volumes, with revenue reaching a record level of R48.6 billion, 25% up on 2010. Operating profit of R32.0 billion was recorded, driving headline earnings per share up to R53.13 per share.

Once again we returned significant distributions to shareholders with dividends absorbing R17.9 billion of our cash flows (R4.2 billion of this owing to employee shareholders through Envision, SIOC's share participation and empowerment scheme for employees, our communities through the SIOC CDT, and Exxaro and R13.7 billion to Kumba shareholders). In addition to the dividend returns, the first phase of Envision matured in November 2011 of this reporting period. Scheme participants received a pre-tax capital payout of R2.7 billion, a phenomenal empowerment success of which we are especially proud.

Another significant milestone for Kumba was the shipment of the first 100,000 tonnes of Kolomela ore from the port of Saldanha Bay in December 2011. The mine has commenced commercial production ahead of schedule and is well set to deliver 4Mt to 5Mt of production during 2012.

## FINANCIAL PERFORMANCE

The group's total mining revenue (excluding shipping operations – R2.7 billion in 2011; R2.9 billion in 2010) of R45.8 billion for the year was 28% higher than the R35.8 billion of 2010. Operating profit increased by 27% from R25.1 billion to a record R32.0 billion. The group's operating profit margin increased marginally to 66%.

Excluding the margin earned from providing a shipping service to customers, the group's mining operating margin remained stable at 69%.

Operating profit increased principally as a result of:

- a weighted average increase of 26% in iron ore export prices, which added R8.9 billion to operating profit and a 3% growth in export sales volumes which contributed R954 million; and
- an R18 million increase in profit from shipping operations. Total tonnes shipped by Kumba on behalf of customers increased by 3.0Mt from 18.7Mt in 2010 to 21.7Mt for 2011.

This increase was offset by:

- a R2.5 billion or 36% increase in operating expenses (excluding shipping expenses and the mineral royalty) as a result of the substantial increase in waste mined at Sishen and Thabazimbi mines, increased maintenance activity, as well as a 7% increase in total volumes railed. The increase was further due to inflationary pressures and significant increases in the cost of diesel and electricity; and
- the mineral royalty payable for 2011 was at an effective rate of 4.4% of FOB iron ore revenue, which added R352 million to operating expenditure.

Kumba's profits are highly sensitive to the Rand/US Dollar exchange rate. On average the Rand was marginally stronger against the US Dollar at R7.25/USD compared to the R7.30/USD of 2010, which resulted in a decline in revenue of some R335 million.

## ACHIEVING OPTIMAL PRICING

A key driver of Kumba's performance is our ability to achieve optimal prices for our products. During the year we continued to extract a premium on niche products sold, on which we delivered US\$49 million of value for the group. In addition, 27% of exports were sold at index-linked prices. At the same time Kumba's ratio of lump to fine ore supplied to the market has been maintained at around 60:40 in order to lock in the premium presented by lump ore over fine ore. However, we saw the lump premium come under pressure in 2011 as steel mills' burden compositions were tailored to contain costs in weak market conditions. The fourth quarter saw index prices, and consequently contract prices, come under pressure, as steelmakers reduced production and commenced with destocking of inventories.

Along with managing the product and its delivery into the market we have some influence over the logistics and have taken a significant step towards developing Kumba's shipping operations to protect FOB margins with the conclusion of two long-term freight contracts committing 6Mtpa.

## COST MANAGEMENT

At Sishen mine, costs were adversely affected by the lower output due to adverse weather conditions during the first quarter, which hampered mining operations and resulted in limited mining flexibility in the pit. The 11.8Mt growth in mining volumes combined with above inflationary pressures in key input costs, have fuelled cash costs, which were up 35% year on year at R150/tonne. Operational costs at Sishen mine are expected to remain under pressure in 2012 as the mine continues its waste ramp up, the cost of which alone will add some 10% to costs in 2011 real terms.

At Kolomela mine, cash unit costs are planned to be below that of Sishen mine in 2013 when the mine reaches full production of 9Mtpa, which positions it towards the bottom of the second quartile of the FOB cash cost curve.

## PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

The Kumba supply chain is well integrated into the Anglo American plc Group programme, which adds significant leverage with suppliers and increased security of supply. For example, in 2011 Kumba was unaffected by supply issues of fuel and explosives, which was a constraint for the mining industry in South Africa. This collaboration also results in significant savings. The detail of each value-adding initiative is tracked on a monthly basis, the results of which are independently audited. These procurement initiatives have delivered operating cost savings and a reduction in capital expenditure for the year.

Kumba's commitment to support local BEE vendors in the vicinity of its operations is supported by the Anglo American plc Supply Chain, which provides a platform for exchanging experiences. The collaborative aim is to seek new and innovative ways of bringing value and local BEE spend together, which provides gains for both parties. This is enhanced through including local and BEE initiatives as part of the global procurement strategies. See our Sustainable Development Report 2011 for further details.

SD Page 38

## ASSET OPTIMISATION PROGRAMME

The asset optimisation process is made up of five phases, starting with identifying an opportunity and concluding with implementing such an improvement. These initiatives have borne fruit particularly at the Sishen mine, where the planned jig plant shutdown interval was optimised, adding an additional six production days in the year, which in 2011 assisted in mitigating production shortfalls from the DMS plant. These improvements were largely attributable to redesigning and optimising liner life, optimal maintenance planning and effective management of resources.

Over the past two years the jig plant's yield has also improved significantly, mainly owing to optimising screening efficiencies and material distribution, and focusing on the metallurgical and mechanical functioning of the jig modules.

The Bokamoso programme (truck and shovel mini-transformation) yielded successes in total tonnes handled. Since 2009 this has improved dramatically with the main contributors to this improvement being the shift change optimisation, improving truck and shovel availability, the increase in the payload factor and mining and technical training for operators.

Asset optimisation initiatives are not only designed to drive down costs but have also contributed to revenue by enhancing production and extracting value through our commercial negotiations in 2011.

## CASH FLOW AND NET DEBT

The group generated cash of R35.5 billion (before mineral royalties and employees' tax on Envision) from operations during 2011. These cash flows were used to pay:

- R9.0 billion flowed to the South African fiscus, of which R7.0 billion was taxation, and R1.7 billion mineral royalties;
- R17.9 billion in aggregate dividends, of which R4.2 billion went to BEE shareholders in SIOC and R13.7 billion to shareholders of Kumba;
- R5.8 billion on capital operations; and
- R2.7 billion to the participants of Envision (including R968 million employees' tax).

The group's net cash position at year end was R1.6 billion compared to a net cash position of R1.7 billion at the end of 2010, leaving the group in a strong financial position to support its growth ambitions.

At 31 December 2011 R3.2 billion of the total R8.6 billion long-term debt facilities had been drawn down to finance Kumba's expansion. The R3.2 billion debt facility matures in 2012 and is due for repayment on 31 July 2012. Kumba was not in breach of any of its covenants during the year. The group had undrawn long-term borrowing and uncommitted short-term facilities at 31 December 2011 of R9 billion (2010: R9.3 billion).

## CAPITAL EXPENDITURE

A total of R5.8 billion of capital expenditure was incurred in 2011, an increase of 23% on the R4.7 billion spent in 2010. The primary allocations were R3.1 billion on expansion capital (mainly the development of Kolomela mine), which includes operating expenses of R1.0 billion that were capitalised in the year, and R2.8 billion on stay in business capital.

Capital expenditure in 2012 is expected to be of the order of R5.5 billion to R6.0 billion. Stay in business capital expenditure is driven by the procurement of mining fleet and equipment and infrastructure development at Sishen and Kolomela mines to ensure the delivery of mining volume growth. Expansionary capital expenditure in 2012 will be incurred on the finalisation of the housing developments at Kolomela mine, the Sishen South-Westerly Expansion project and SEP1B, once board approval has been obtained. After 2012 capital expenditure is expected to reduce to levels of around R3.0 to R3.8 billion per annum before taking into account the capital required to grow the group to production of 80 to 90Mtpa.

## RETURNS TO SHAREHOLDERS

Earnings in the year under review remained strong. Headline earnings were R17.0 billion, an increase of 19% on 2010, and translating into attributable and headline earnings for the year of R53.11/share and R53.13/share respectively.

Kumba's performance based on shareholder returns (share price appreciation combined with distributions by way of dividends) has been outstanding over the past five years. The total dividend

in 2011 amounted to R44.20 (interim of R21.70 and final of R22.50), significantly up on the total dividend of R34.50 in 2010. The dividend cover of 1.2 for 2011 is likely to be sustained, reflecting the anticipated continued strong cash position of the group. The company's share price closed at R500 per share at the end of the year, which represented growth of R390 per share since listing in 2006, representing a compound annual growth rate in excess of 35% per annum.

## OUTLOOK

The short-term outlook for the global seaborne iron ore market is impacted by ongoing macro-economic uncertainty. Monetary tightening measures to control inflation in emerging economies such as China started to have the intended effect. In addition, a lack of co-ordinated policy response to tackle the European sovereign debt crisis also impacted demand. Despite the short-term macro-economic uncertainty, medium to long-term prospects for demand remains robust as China continues to industrialise and urbanise. Nevertheless, as China shifts from an investment intensive to consumption driven economy, the rate of growth for steel materials is expected to moderate to a more sustainable level.

While demand is a key driver for pricing, supply constraints also play a crucial role. In the short-term iron ore supply is anticipated to remain tight amid seasonal weather impacts in Brazil and Western Australia, and government's moves in India to control export. Ongoing challenges producers face in delivering new supply will lead to increasing capital intensity and underpinned long-term pricing outlook.

Waste mining at Sishen mine is anticipated to increase in line with the planned ramp up that commenced in 2009, which will put upward pressure on unit cash costs of production. Annual production volumes from Sishen mine are expected to increase back to design capacity.

Kumba's ability to supply iron ore to the market will be enhanced by the ramping up of Kolomela mine during 2012 to produce between 4Mt and 5Mt in 2012. Export sales volumes in 2012 are anticipated to grow by ~3Mt from the volumes achieved in 2011 as volumes from Kolomela mine ramp up, offset by the fact that excess finished product stockpiles at Sishen mine have been depleted to operating levels. Domestic sales volumes remain dependent on the off-take requirements from AMSA.

Kumba's operating profit remains highly sensitive to the Rand/US Dollar exchange rate.



**Vincent Uren**  
Chief financial officer

## THE GLOBAL IRON ORE MARKET

Demand for iron ore globally is largely dependent on the state of the steel industry worldwide and, more specifically, on that of steel production in China. China, the largest steel producer and consumer in the world, accounts for more than two thirds of global seaborne iron ore imports.

In 2011, global steel production was up by 6% to 1.5 billion tonnes (2010: 1.4 billion tonnes) of which 683Mt was produced in China (2010: 637Mt), an increase of 7% (2010: 11%). China's seaborne iron ore imports rose by 11% to 684Mt (2010: 619Mt). The balance of China's iron ore needs were met by domestic iron ore production, which remained stable at 301Mt (-1%).

Kumba's total export sales increased by 3% in 2011 to 37.1Mt with approximately two thirds sold to China. At 11Mt, Kumba's traditional markets (Europe, Japan and Korea) accounted for about 30% of export sales, while the company sold the remaining portion of its total exports into the Middle East, North Africa and the Americas. About 8Mt, comprising the entire production volume of Thabazimbi mine and about 6Mt of ore from Sishen mine, are sold locally to AMSA.

The construction industry in China remains its largest steel demand driver and the rapid expansion in new developments, fuelled by the post-global financial crisis stimulus package, created a surge in steel demand. This pushed steel production to new records with daily output surpassing 2Mt per day (737Mt on an annualised basis) in late June 2011. However, towards year end, the tightening in monetary policy that began a year ago in China, with increases in interest rates and bank reserve requirements, began to make itself felt.

The economic uncertainty in the second half of the year, coupled with a credit liquidity squeeze in China, particularly affecting downstream steel stocking by end users and the construction sector, caused steel prices to fall. In turn, steel mills cut production, slowed purchasing, focused on fines (rather than lump) and turned to sourcing lower grade ores to limit absolute costs. This halted increases in the spot price of iron ore and cut the demand and pricing for high quality and lump ore. By the end of the third quarter steel production had started to slow noticeably as steel prices continued to weaken and market sentiment remained uncertain and negative.

Steel demand and pricing in Europe has been on the back foot since April 2011, following concerns around what has become a full-blown European sovereign debt crisis. Japanese steel production and prices were initially impacted by the earthquake and tsunami but recovered during the third quarter. However, here too prices were pulled down by global economic concerns that had already prevented a recovery of steel markets in Europe after the seasonal summer pause. As a result European and Japanese steel producers started to signal and implement production slowdowns in order to try and stabilise steel markets.

Consequently, iron ore off-take in these regions has slowed and China was the target of diverted contractual tonnages from a number of suppliers. Spot iron ore prices fell to a low of \$116.75 at the end of October, losing 35% from the peak in early September 2011.

Steel markets in China remain subdued but have stabilised and steel production decreases levelled out. This has led to the resumption of iron ore sourcing as stocks have been run down and iron ore pricing has found support once more on high cost Chinese domestic production. Spot prices climbed to around \$140.00 CFR China in December 2011.

## SUPPLY

The seaborne iron ore market remained tight in 2011 with adverse weather conditions and logistical constraints affecting supply. Kumba's ability to supply the global seaborne iron ore markets was hampered during the first half of the year by unusually heavy rainfall.

Most of Kumba's export sales volumes, which remain committed to long-term annual contracts, were priced on a historic quarterly basis, derived from the iron ore index. However, during the fourth quarter, Kumba adapted its pricing in response to more current pricing mechanisms. During 2011 iron ore sold under long-term or annual contracts accounted for 73% of total export sales volumes. The remaining 27% consisted of index sales.

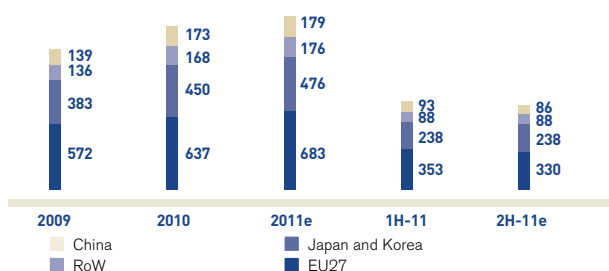
## OUTLOOK

The global economic outlook remains uncertain in the short term. However, the mid- to long-term picture remains robust and iron ore demand is expected to continue to rise. The addition of new iron ore capacity continues to prove challenging, with new supply partially offsetting shortfalls from certain regions, for example India.

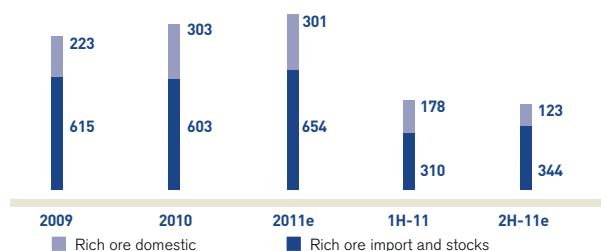
The outlook for growth in the global seaborne iron ore market in 2012 is less positive than it was, and it is not expected to achieve the levels of growth achieved in recent years. On the supply side, the availability of ore is likely to remain tight as no major greenfields iron ore projects are due to come on line. Kumba's ability to supply iron ore to the market will be enhanced by the ramping up of its new Kolomela mine during 2012.

On the demand side, China's restructuring of its economy to focus on sustained growth rather than rapid expansion has led to a cooling in the property market and a consequent fall-off in demand for steel in this sector, although steel-intensive government projects remain a priority investment area. China's crude steel production is therefore expected to continue to grow by approximately 5% during 2012.

### GLOBAL 2011 CRUDE STEEL PRODUCTION (Mt)



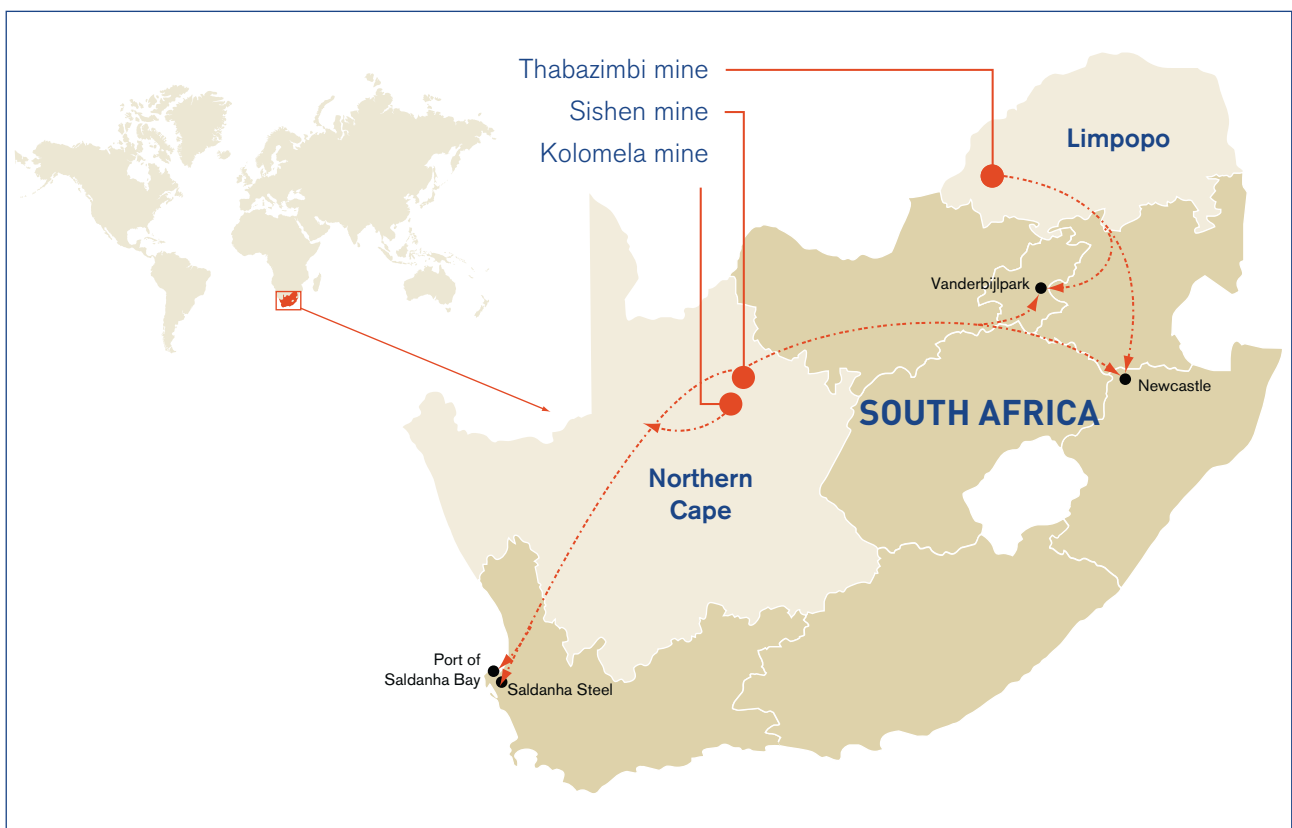
### CHINESE IRON ORE IMPORTS VERSUS USE OF DOMESTIC ORE (Mt)



# INTRODUCTION

Kumba's primary operations – Sishen and Kolomela mines – are in South Africa's Northern Cape Province, while the Thabazimbi mine is in Limpopo Province. In 2011, the group produced 41.3Mt of iron ore (2010: 43.4Mt), and exported 37.1Mt of iron ore (2010: 36.1Mt).

## LOCATION OF OPERATIONS



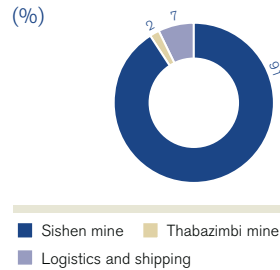


Morne Cloeté, mining foreman, and Goitsemodimo Dladla, mining operator, in discussion at Kolomela mine.

### ABOUT LIMPOPO PROVINCE

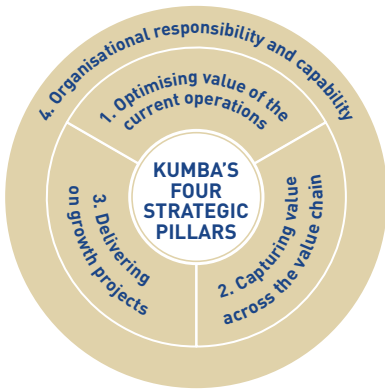
Limpopo Province is the fifth largest of South Africa's nine provinces, contributing around 7% to the country's gross domestic product (GDP). In addition to iron ore deposits, the province hosts platinum, chrome, coking coal and copper mining operations. Mining was the most significant contributor to the economy in 2011 and this is expected to rise as more prospects are developed, in line with the province's economic objectives. Primary economic activities in the region include agriculture and tourism. Unemployment is high (around 30%) and the region is a designated poverty node.

### CONTRIBUTION TO REVENUE 2011 (%)



### ABOUT THE NORTHERN CAPE PROVINCE

Although the largest of South Africa's nine provinces, the Northern Cape Province is among the most sparsely populated and contributes only 2.4% to GDP. The province has a long history of mining: it hosts world-renowned diamond mines in Kimberley, it is the most significant South African producer of iron ore (Sishen mine) and it has several manganese mines at different locations. Other economic activities in the region include agriculture and farming, particularly wildlife farming and marine products. Despite its mineral wealth and its low population density (three people per square kilometre), unemployment is high (around 23%) and the region is a designated poverty node.



## STRATEGY IN ACTION

### 1. Optimising value of the current operations

Asset optimisation programme partially mitigated the impact of production shortfalls and facilitated growth in mining activity  
 Optimising pit design and stripping ratios to meet market demand and exploit favourable price environment  
 Planned ramp up of waste stripping

### 2. Capturing value across the value chain

Delivering record export volumes of ore using stockpiles to take advantage of iron ore prices, notwithstanding a difficult production year

### 3. Delivering on growth projects

SEP1B, Sishen DMS concentrate project and Sishen low-grade project studies progressing

### 4. Organisational responsibility and capability

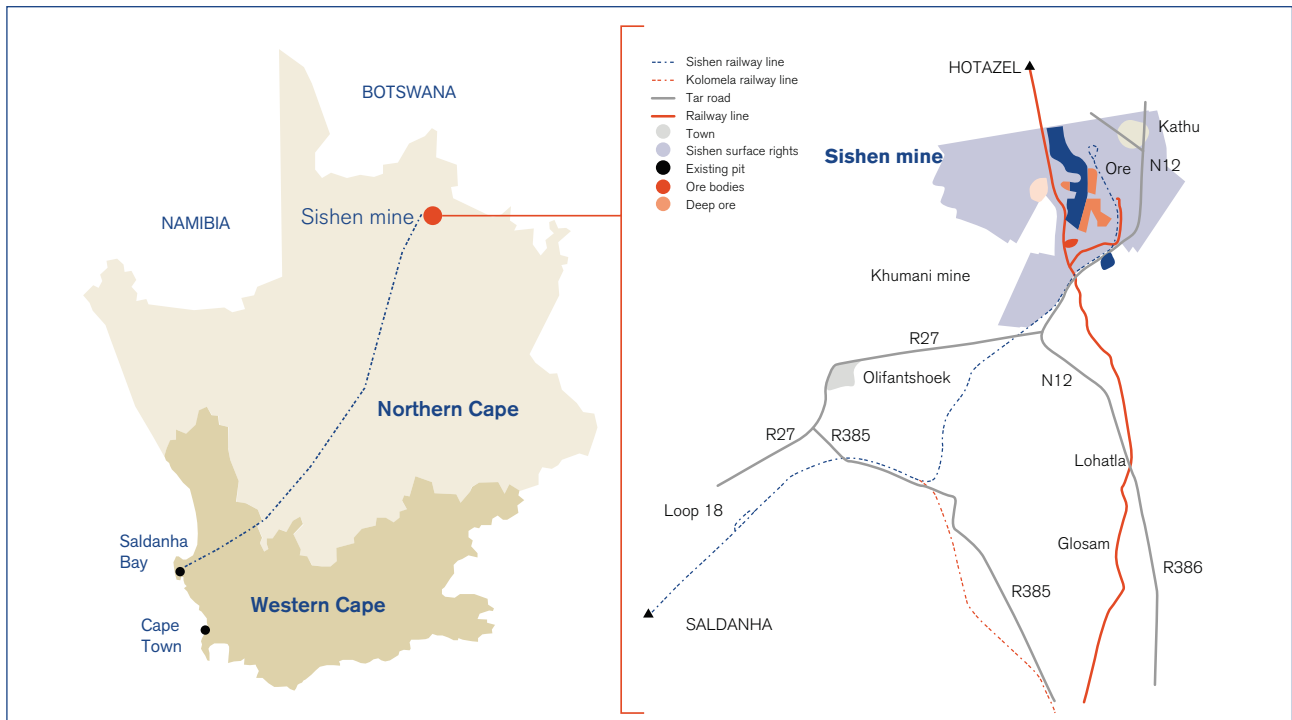
Fatality-free year; LTIFR halves in 2011  
 Compliance with Mining Charter – completion of first five-year SLP  
 ISO14001 certification retained  
 Hydrocarbon legacy issues largely resolved  
 Good progress with Dingleton relocation feasibility study  
 136 houses built

## ABOUT SISHEN

<b>History</b>	Mining operations first started at Sishen mine in 1953, with the first ore exported in 1976. South Africa's largest iron ore producer, the mine has produced 876Mt of iron ore over close to 60 years of operation.
<b>Geology</b>	Sishen mine is host to a large haematite orebody (±14km by 3.2km by 400m). Its lump ore is highly valued by steelmakers. Sishen's lump to fine ratio is of the order of 60:40, while the global average is 30:70.
<b>Ore Reserves and Mineral Resources</b>	Sishen mine's Ore Reserves amounted to 983.9Mt at 31 December 2011, while Mineral Resources (excluding reserves) were 776.4Mt. The current LOM is 21 years.
<b>Location</b>	Sishen mine is located in the Northern Cape Province, 30km from the mining town of Kathu.
<b>Mining and production</b>	Sishen mine is a highly-mechanised, open-pit mine with processing facilities. Operations are conducted 24 hours a day, 365 days a year. All material is beneficiated through a DMS process or through jig gravity separation. Consistent quality is ensured through final product blending and reclamation, prior to dispatch to customers. The mine's annual production capacity is of the order of 41Mtpa.
<b>Logistics</b>	Export ore is transported via the IOEC to the port of Saldanha Bay, and then to customers around the world. These rail and port operations are owned and operated by the state utility, Transnet.
<b>Markets</b>	Sishen mine's products include 25mm 65% Fe lump (DMS), 25mm 64% Fe lump (jig plant), 27mm and 20mm 66% Fe lump (niche products) and 8.0mm 64.5% Fe fines. Around 15% of Sishen mine's product is sold for domestic consumption, with the balance being exported.
<b>Mining rights</b>	Refer to page 30 in the chief executive's review of the year
<b>Project pipeline</b>	A number of brownfields expansion projects are currently being considered and developed, including Sishen lower-grade projects, SEP1B and the Sishen DMS concentrate project. Kumba is part of a Transnet/industry team that is examining the feasibility of expanding the IOEC to beyond the current design capacity of 60Mtpa.

# REVIEW OF OPERATIONS: SISHEN MINE

## LOCATION OF OPERATIONS – SISHEN MINE



## MANAGEMENT TEAM



**ANDREW LOOTS (44)**  
General manager  
BEng (Mech), MBA  
Joined Sishen mine  
in 2008

**RETIEF LOUW (47)**  
Manager: engineering  
BEng (Electrical),  
Diploma Datametrics,  
NEM  
Joined Sishen mine  
in 1998

**SUSAN  
BEZUIDENHOUT (39)**  
Manager: human  
resources  
MCom (Industrial  
psychology)  
Joined Sishen mine  
in 2001

**MASHILO  
MOKOTONG (46)**  
Manager: sustainable  
development  
BA (SW), MBA, MSc  
(Trade and Strategy)  
Joined Sishen mine  
in 2010

**GARETH GREER (43)**  
Acting manager:  
projects  
BSc (Eng) (GCC)  
Joined Sishen mine  
in 2011

**NICO SMIT (37)**  
Manager: plant  
BEng (Met), MBA  
(cum laude)  
Joined Sishen mine  
in 2007



Maintenance workers shifting a pipeline that feeds water to the jig plant at Sishen mine.



**PRAJAY MAHARAJ (36)**  
 Manager: finance and admin  
 BCompt (Hons), CA(SA)  
 Joined Sishen mine in 2010

**HANNES CRONJE (38)**  
 Manager: mining  
 BEng (Mining), MBA, MMCC  
 Joined Sishen mine in 2006

**HOWARD NICOLAS (53)**  
 Manager: safety, health,  
 environment and quality  
 NDip Safety Management  
 NADSAM  
 Joined Sishen mine in 2009

**CHRISTO LE GRANGE (39)**  
 Manager: safety  
 NDip Metallurgy  
 Joined Sishen mine in 1994

**FAITH MAZABANE (33)**  
 Manager: transformation &  
 compliance  
 BJuris, Masters Dipl. Mining  
 Law & Administration, Project  
 Management  
 Joined Sishen mine in 2011

## REVIEW OF OPERATIONS: SISHEN MINE

### PERFORMANCE SUMMARY

	Units	2011	2010	2009	2008	2007
Total tonnes mined	Mt	165.0	153.2	128.3	108.8	104.4
ROM production		46.0	51.2	46.2	44.6	38.9
Waste mined		119.0	102.0	82.1	64.2	65.5
Final product	Mt	38.9	41.3	39.4	34.0	29.7
DMS		25.4	28.0	29.0	28.4	29.5
Jig		13.5	13.3	10.4	4.7	0.2
Additional initiatives		–	–	–	0.9	–
Stripping ratio	Times	2.6	1.9	1.8	1.4	1.7
Cost per tonne	R/tonne					
Total cost		178.9	128.7	111.1	110.8	79.9
Cash cost		150.5	111.2	98.8	101.9	74.3
Total sales	Mt	42.1	41.1	38.2	30.5	30.5
Export		37.1	36.1	34.2	24.9	24.0
Domestic		5.0	5.0	4.0	5.6	6.5
Revenue contribution	R million	44,703	35,481	19,473	18,308	9,891
% contribution to group	%	92	91	83	86	86
Capital expenditure	R million	3,126	1,794	1,382	4,683	439
Expansion capital*		381	209	165	3,842	73
Stay in business capital		2,745	1,585	1,217	841	366
Employment	At 31 Dec 2011					
Full time employees		4,412	4,173	3,868	3,775	3,527
Contractors		3,865	4,217	1,199	493	129
Local full time employees	%	90.89	89.58	91.86	94.45	92.62
Turnover	%	3.10	4.10	4.71	6.81	8.42
Women in core mining	%	10.97	10.04	7.04	5.77	5.66
HDSAs in management	%	47.70	42.86	40.41	37.57	33.14
Employees unionised or covered by collective bargaining agreements	%	89.81	81.98	83.61	84.37	84.09
Safety						
LTIFR	per 200,000 hours worked	0.08	0.15	0.06	0.12	0.23
Training and development expenditure	R million	70.6	58.0	59.7	48.3	36.5
Professionals in training	(No)	596	482	515	443	463
Learnerships	(No)	24	45	57	53	63
Energy intensity						
Energy consumed	000 GJ	5,798	4,785	4,586	3,808	3,343
Energy intensity	GJ/t	0.15	0.15	0.12	0.11	0.11
Carbon emissions						
Total CO <sub>2</sub> e emissions	000 CO <sub>2</sub> t	777	753	642	498	475
CO <sub>2</sub> e intensity	CO <sub>2</sub> t/t ore	0.20	0.02	0.02	0.01	0.02
Water	Million m <sup>3</sup>					
Total water withdrawn (ground water abstracted)		12,759	4,774	2,169	4,508	4,739
Primary water consumption		5,902	6,232	5,084	5,740	6,223
Social and community development expenditure	R million	73.6	72.1	23.6	62.7	38.1
Expenditure with BEE suppliers	%	42.8	80	388	229	170
Number of houses constructed		136	39	342	383	251

\* Includes the Sishen Expansion Project (Jig Plant)

## SAFETY, HEALTH AND WELL-BEING

Safety performance improved in 2011. These efforts included the additional appointment of a head of department to focus only on safety. The mine introduced a methodical approach to the internally initiated safety stoppages, with a specific process to be followed to return the area to production. Further intensive safety programmes were introduced where, for the period of a week, resources were focused on specific safety-related issues.

There were no fatal accidents during the year, and the LTIFR per 200,000 hours worked improved significantly by 50% to 0.08 (2010: 0.15). This was a notable achievement given the number of contractors on site (on average 50.5% of all employees on site during 2011), and the management of contractors has continued to be a major area of safety focus.

Experiences gained in project management on the Kolomela mine, both from a safety and execution point of view, are being applied at Sishen mine for growth as well as stay in business projects. Sishen mine's approach is to integrate production contractors into the business as far as possible: they receive the same training as employees when they are engaged on the mine and are required to follow the group's safety and management systems. More recently, additional focus has been given to examining their engineering plans.

The primary occupational health risk at Sishen mine is that of NIHL and dust. A total of 17 cases of NIHL were confirmed as work-related in 2011. Kumba monitors dust on a daily basis through personal exposure monitoring and dust fall-out levels.

During the year, 91% of employees and 58% of contractors received CCT in respect of HIV/AIDS. A great deal of emphasis is placed on testing as this facilitates the provision of care to those who are HIV-positive, and provides an opportunity to counsel and educate both HIV-positive and -negative employees. A total of 197 employees, including contractors, received anti-retroviral treatment (ART) during the year. This treatment forms part of the group's wellness programme.

Kumba's approach to employee well-being is a holistic one. At Sishen mine occupational health practitioners are deployed on every shift, building team relationships and providing individual support where this is required. Specific issues of concern include adult onset diseases and fatigue management, particularly on night shifts.

Sishen mine received much attention and support from the DMR in respect of safety and health during the year, with four DMR inspections having taken place. It was particularly gratifying that, despite two Mine Health and Safety Act (MHSA) Section 55 instructions which required rectification and a report-back, the operations were not halted at any stage for reasons of non-compliance.

Dust remains a primary occupational health risk, and the mine has developed revised action plans to deal with the matter, including the use of alternative dust suppression emulsions.

## OPERATING AND FINANCIAL PERFORMANCE

Exceptionally high rainfall in the first half of 2011 was a critical factor affecting performance at Sishen mine during the year. Since 1960, the average annual rainfall has remained around 258mm. In 2011, 630mm of rain fell from January to June; 271mm were recorded in January 2011 alone. In all, the rain stopped or affected work for 59 days during the first half of the year and these production losses could not be made up, although operations in

the last three quarters of the year were largely on target. In the last quarter the feed to the DMS plant specifically was hampered by floor stock and pit constraints.

The mine has implemented a 'rain plan' to deal with such events in the future, particularly given the potential for changing weather patterns in the Northern Cape Province. These include:

- adjusting the mining sequence to focus on the clay material in the dry months;
- the development of additional infrastructure such as 'rain roads' with surfaces allowing better access during rainy periods; and
- investment in pumping infrastructure to enhance the dewatering of the pit or at least the operational areas of the pit, and installing equipment specifically suited to maintaining the roads and infrastructure in wet conditions.

As a result of the impact of this extraordinary weather and pit constraints, total production of iron ore at Sishen mine decreased year on year, by 5.8% to 38.9Mt (2010: 41.3Mt).

Although run of mine (ROM) production was down by 10.4% to 46Mt (2010: 51.2Mt), waste mined continued to increase by 16.71% to 119Mt (2010: 102Mt), as the mine rose to the challenge of meeting the higher stripping ratio required. By year end, Sishen mine had removed an additional 17Mt of waste – a substantial increase of around 17% year on year. The expected waste ramp-up was slowed by rain and contractor underperformance; the latter is being addressed by concerted joint planning and a review of contractors' maintenance programmes to improve the availability of equipment. A version of Kumba's own Bakamoso asset optimisation initiative is also being rolled out to contractors to improve equipment and efficiencies.

The DMS plant had a less than satisfactory performance in 2011, producing 25.4Mt of ore, as its output was constrained by the availability of high-grade material in the pit. The second full year of the implementation of the jig optimisation plan saw further improvements in throughput: this plant processed 13.5Mt above the nameplate capacity of 13Mt, which is an increase of 2% on 2010. Some of this upside in performance was as a result of the production of a lower iron ore content product to meet customer demands.

### LTIFR – SISHEN MINE (per 200,000 hours worked)



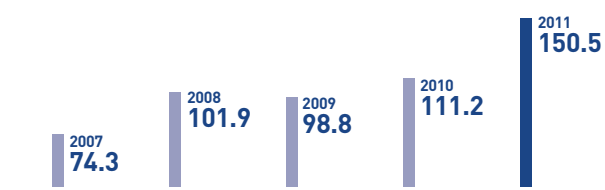
### EMPLOYEES AND CONTRACTORS – SISHEN MINE



## REVIEW OF OPERATIONS: SISHEN MINE

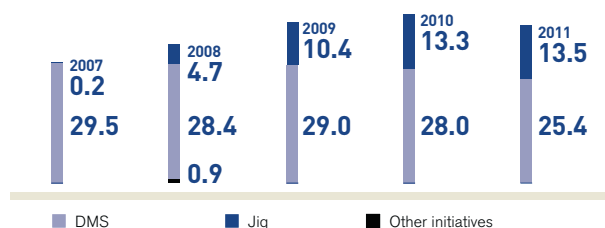
### CASH COST PER TONNE – SISHEN MINE

(R/tonne)

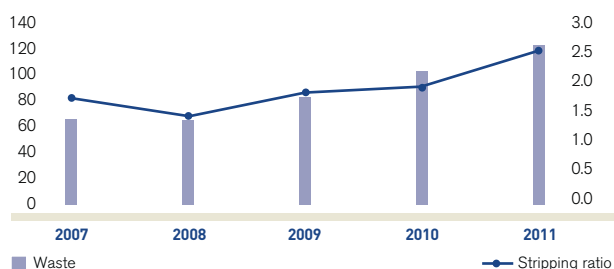


### PRODUCTION – SISHEN MINE

(Mt)



### WASTE (Mt) AND STRIPPING RATIO (times) – SISHEN MINE



### SOCIAL AND COMMUNITY DEVELOPMENT EXPENDITURE – SISHEN MINE

(R million)



Although cost saving initiatives were in place given the higher stripping ratio and lower production, unit cash costs rose by 35% to R150.47 per tonne, which was further exacerbated by a 24% increase in the diesel price and DMS maintenance activities. Total unit cash costs at Sishen mine comprised labour (23%), external services (20%), maintenance (13%), fuel (17%), drilling and blasting and energy (9%).

Sishen mine's optimisation and efficiency improvement project, Bokamoso 2011, continued to produce results, with operational efficiency improvements aiding in containing cost increases and production shortfalls.

First introduced in 2008, the programme combines the development of integrated technical systems to drive ideas for improvement throughout the business, with a focus on individuals' personal commitment towards this improvement. Each department participates in this business improvement process, with intensive weekly focus sessions held by the heads of departments. In total, some 100 ideas for business improvement are being implemented across the mine. Gaining significant incremental benefits from this initiative will become difficult, although this is helped by the fact that this programme has become part of a way of life at Sishen mine. During the fourth quarter the mine underwent a substantial operational review which determined the focus areas for Bokamoso 2012. Allied to this, personal insight, high performance, team and diversity workshops have specifically been designed to improve team performance.

## CAPITAL EXPENDITURE

During the year under review a total of R2.7 billion was spent on stay in business capital items, largely related to the upgrading and expansion of the Sishen mining fleet as the waste removal ramp up progresses. Further, stay in business capital amounted to R490 million, which was mainly allocated to infrastructure development, including roads and the wash plant.

R381 million was spent on expansion capex for the SWEP and SEP1B projects. Stay in business capital expenditure in 2012 is expected to be in the order of R3.0 to R3.3 billion, to be spent mainly on further expansion and maintenance of the mining fleet.

## PEOPLE

Sishen mine's workforce of 8,277 people (at the end of December 2011), comprised both 4,412 permanent and 3,865 contractor employees. Around 91% of employees are from local communities in the Northern Cape Province.

Sishen mine's diversity programmes are comprehensive and are designed to transform the organisation, and not merely achieve Mining Charter targets. Around 48% of management is made up of historically disadvantaged South African (HDSA) employees (in terms of the Mining Charter's definition). Women made up 15% of the total workforce, with 11% in core mining jobs. Sishen mine's performance exceeds the Mining Charter's requirement for HDSAs to occupy 40% of management positions and for women to make up 10% of the staff complement involved in core mining activities. The development of a pipeline of employable women is an area of intense focus, and Sishen mine's partnership with the Kathu Further Education and Training College is playing an important role in achieving this.

Around R70.6 million was spent on training and development during the year, with the emphasis on professionals in training, the provision of learnerships and bursaries, as well as adult basic education and training and portable skills training. Training and development expenditure amounted to 3.7% of payroll, against the Mining Charter targets of 5% by 2014. Sishen mine has paid special attention to skills development (of artisans, in particular) in light of the country-wide skills shortages, the requirements of the Mining Charter, and the need to recruit locally to ensure retention.

Given the mine's location, the national housing shortage and expansions to the mine, Kumba has invested significant amounts in housing and infrastructure development to facilitate better living conditions and accommodation for its employees and their families. In 2011, Sishen mine alone built 136 houses at a cost of some R76 million. The mine's home ownership programme encourages employees to purchase their own homes and it is hoped that the Envision benefits will facilitate this.

Around 94% of employees are unionised or covered by collective bargaining agreements. Union relationships at Sishen mine continued to be sound.

## SOCIAL AND COMMUNITY DEVELOPMENT

Sishen mine's social and community development programmes are extensive, and recognise the interdependence of the mine and the community. The mine has concluded its first five-year social and labour plan (SLP) commitment and will be embarking on its next five-year SLP programme from 2012. Sishen mine met or exceeded all its SLP obligations during the year. The mine's social and community agenda is driven by the needs of the community, and is aligned with the aims and requirements of the local and district municipality. Of the R73.6 million spent on social and community development during the year, 27% was allocated to education, 21% to health and welfare and 45% to infrastructure and enterprise development. A further contribution (7%) was made to the Anglo American plc Chairman's Fund.

Enterprise development is a critical part of the mine's social and community development strategy. These efforts are generated from the Anglo American plc Zimele Hub, situated in Kathu. In 2011, enterprises supported by the hub generated turnover of R46.5m, were granted loans of R9.25 million and created 451 jobs. During the year, around 42.8% of the mine's procurement was with BEE enterprises.

In total, R264.6 million has been spent on SLP and enterprise development over the past five years.

Significant progress has been made with planning the relocation of the Dingleton community, with the feasibility study currently being concluded. A hallmark of this project has been the extent of the participation by local government and community representatives and their positive contribution to proceedings.

## ENVIRONMENTAL PERFORMANCE

Sishen mine maintained its ISO14001 certification following an independent audit undertaken in July 2011.

Sishen mine is located in a water-scarce region. Despite this, the mine's activities generate significant amounts of water from groundwater inflow into the pit, which must be dewatered to enable safe mining. In 2011, Sishen mine withdrew a total of 12.7 million m<sup>3</sup> of water, of which 5.9 million m<sup>3</sup> was used for the mine's primary activities and the balance was provided to local municipalities and

other users via Sedibeng Water. This withdrawal has an impact on the groundwater available for local farmers and Sishen mine's full-time liaison officer interacts directly with local farmers to arrange regular meetings and facilitate information-sharing and discussions. A comprehensive monitoring network is used for the continual monitoring of groundwater levels and, in particular, the drainage plume around the pit. The groundwater drainage model is updated regularly. Water is provided to affected local farmers as required.

Excellent progress was made with the remediation of hydrocarbon legacy issues, and the challenge of dealing with arising contaminated soil. Contaminated soil was removed from the Aldag and diesel workshop pollution control dams at Sishen mine for treatment, which is expected to be completed in February 2012. Construction of the novel bio-remediation facility to deal with contamination of both the soil, and a shallow aquifer, has been completed and the handover and commissioning process is being finalised.

## GROWTH

There are a number of brownfields projects on the horizon at Sishen mine. The SEP1B project is intended to beneficiate the -1+0.2mm fraction of the jig plant ROM feed that is currently discarded. This project has the potential to increase the jig plant product yield by 3% to 5%. A pilot plant and test work will be completed towards the end of 2012, with benefits starting to accrue in 2013. Design capacity of 0.75Mtpa will be reached in early 2014.

The next wave of brownfields projects will focus on the lower grade resources (B and C grades and concentrates). Project teams have been allocated to the early stage development of these projects.

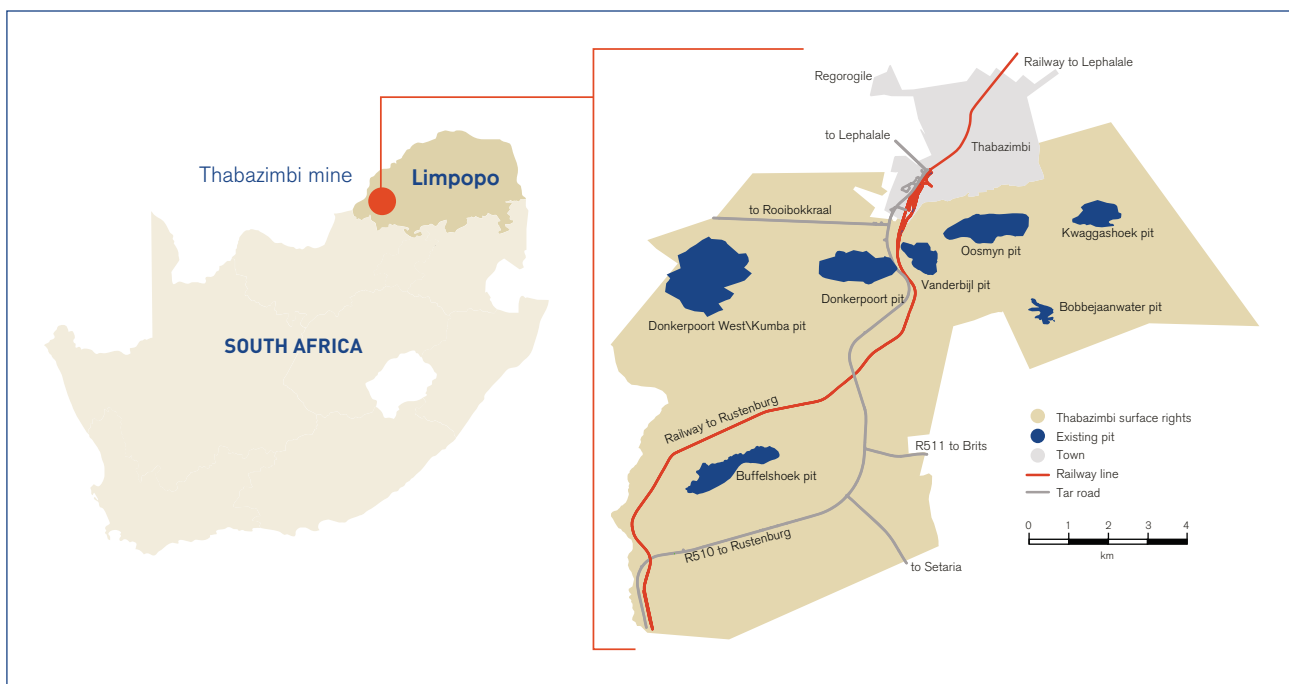
Please refer to the projects section on page 65 for further details.

## OUTLOOK

Sishen mine's LOM plans continue to be reviewed on an annual basis to optimise utilisation of the resource base. The waste ramp-up period which was started in 2010, will see the stripping ratio rise further to an average of 3.5 times and will continue to place pressure on unit costs. Production is expected to increase in 2012 as both plants will be operating at nameplate capacity, while the removal of waste is likely to increase by approximately 20%.

# CHALLENGING PERIOD FOR THABAZIMBI MINE

## LOCATION



## MANAGEMENT TEAM

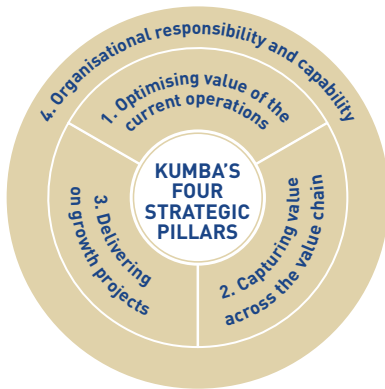


**CORNELIA HOLTZHAUSEN (39)**  
 General manager  
 BSc (Metallurgical Eng), MBA,  
 PR Eng  
 Joined Thabazimbi mine in 1994

**PIETER LATEGAN (45)**  
 Manager: mining  
 BSc (Mechanical Eng)  
 BSc (Mining Eng)  
 Joined Thabazimbi mine in 2009

**HUMBULANI TSHIKALANGE (44)**  
 Manager: human resources  
 BA. Admin, Post Graduate Diploma  
 (Development Management), MM  
 (Policy & Development Management)  
 Joined Thabazimbi mine in 2011

**ALFRED MATHENJWA (35)**  
 Manager: plant  
 BSc (Chemical Engineering), MBA,  
 PR Eng (Professional Engineer)  
 Joined Thabazimbi mine in 2010



## STRATEGY IN ACTION

### 1. Optimising value of the current operations

Increased productivity and effectiveness of assets during the LOM

### 2. Capturing value across the value chain

Expansion of growth opportunities

### 3. Delivering on growth projects

Progress with Phoenix project

### 4. Organisational responsibility and capability

Excellent safety performance

ISO 14001 certification retained

Compliance with Mining Charter; completion of first five-year SLP

## ABOUT THABAZIMBI

<b>History</b>	Underground mining operations started at Thabazimbi mine in 1931 and continued until 1997, making this the oldest iron ore mine in the country. Open-pit operations started in 1942, and to date this mine has produced 160Mt of iron ore.
<b>Geology</b>	The Thabazimbi mine orebodies comprise tabular basal units (1.5km strike length) and smaller lenticular units (300m strike length) in the Penge formation. The ore is both high-grade (Fe>60%) and low-grade ore (Fe>55%), namely goethite haematite ores that are a mixture of hard and soft ore, therefore giving a lump ratio of 42:58. The orebodies dip south at approximately 45°. Thabazimbi mine's iron ore is particularly low in contaminants, making it valuable in the steel value chain.
<b>Ore Reserves and Mineral Resources</b>	Thabazimbi mine's Ore Reserves amounted to 10.4Mt with 48% Indicated and 12% Measured at 31 December 2011, while Mineral Resources (excluding Reserves) were 15.2Mt. Thabazimbi mine's LOM extends to 2016, at which time it is planned that the Phoenix project will replace current production.
<b>Location</b>	Thabazimbi mine is located in Limpopo Province, in the town that bears its name. The town developed as a result of the mine.
<b>Mining and production</b>	Thabazimbi mine is an open-pit mining operation, using trucks and shovels. It is a 24-hour a day, six-day a week operation. The mine's entire ROM is beneficiated through a high-yield DMS process. As the mine reaches the end of its life, production capacity is estimated at 2Mtpa.
<b>Logistics</b>	Ore is dispatched both by rail and road.
<b>Markets</b>	Thabazimbi mine's products include 30mm 62% Fe lump and 8mm 62.5% Fe fines. A supply agreement with AMSA provides for the delivery of all the production of iron ore from Thabazimbi mine to steel mills at Vanderbijlpark and Newcastle. The agreement provides for a cost +3% management fee, which is overseen by a joint management committee.
<b>Mining rights</b>	Thabazimbi mine is the holder of two adjacent mining rights. These mining rights were executed in October 2009.
<b>Project pipeline</b>	A feasibility study is currently being completed for the Phoenix project, which is expected to replace production at this mine on a commercial basis after 2016.



**SABELO GUMEDE (39)**  
 Manager: safety and sustainable development  
 BSc (Hons), MSc  
 Joined Thabazimbi mine in 2005

**KOBUS MULLER (61)**  
 Acting manager: engineering  
 GCC (Electrical Engineer)  
 Joined Thabazimbi mine in July 1976

**DRIES BURGER (57)**  
 Manager: finance  
 BCom (Accounting),  
 NDip Management  
 Joined Thabazimbi mine in 2001

**ANTOINETTE SCHEEPERS (41)**  
 Manager: supply chain  
 B Com (Hons)  
 Joined Thabazimbi mine in 2006

## REVIEW OF OPERATIONS: THABAZIMBI MINE

### PERFORMANCE SUMMARY

	Units	2011	2010	2009	2008	2007
Total tonnes mined	Mt	45.9	35.5	19.5	12.1	20.0
ROM production		1.7	2.3	3.1	3.2	3.3
Waste mined		44.2	33.2	16.5	8.9	16.7
Final product	Mt	0.9	2.0	2.6	2.7	2.7
Stripping ratio	Times	25.8	14.6	5.4	2.8	5.0
Cost per tonne	R/t					
Total cost		1,167.0	399.7	303.0	269.7	249.1
Cash cost		1,081.0	359.0	262.8	236.3	204.5
Domestic sales	Mt	1.4	2.0	1.9	2.5	2.4
Revenue contribution	R million	907	666	543	640	521
% contribution to group	%	2	2	2	3	5
Capital expenditure*	R million	251.3	79.2	44.4	50.5	63.7
Expansion capital		–	37.3	26.8	11.4	12.1
Stay in business capital		251.3	41.9	17.6	39.1	51.6
Employment	At 31 Dec 2011					
Full time employees		815	806	821	818	818
Contractors		889	974	693	451	191
Local full time employees (Limpopo Province)	%	63	89	85	79	74
Turnover	%	4	5	4	6	7
Women in core mining	%	9.3	9	7	4	4
HDSAs in management	%	48	47	45	44	37
Employees unionised or covered by collective bargaining agreements	%	97	89	87	88	88
Safety						
LTIFR	per 200,000 hours worked	0.10	0.25	0.00	0.00	0.12
Training and development expenditure	R million	7.4	9.4	9.2	8.0	7.5
Professionals in training	(No)	10	–	–	–	–
Learnerships	(No)	15	14	13	11	5
Energy intensity						
Energy consumed	000 GJ	526	522	402	360	413
Energy intensity	GJ/t	0.58	0.26	0.16	0.14	0.16
Carbon emissions						
Total CO <sub>2</sub> e emissions	CO <sub>2</sub> t	60,728	58,219	51,412	51,757	52,576
CO <sub>2</sub> e intensity	CO <sub>2</sub> t/t ore	0.07	0.03	0.02	0.02	0.02
Water	Million m <sup>3</sup>					
Total water withdrawn (groundwater abstracted)		1.26	1.56	1.85	2.01	1.92
Primary water consumption		1.52	2.13	2.30	2.37	2.15
Social and community development expenditure	R million	9.2	16.80	3.89	1.90	0.72
Expenditure with BEE suppliers	%	47.4	56.6	47.8	41.0	40.2

\* Funded by AMSA.

## SAFETY, HEALTH AND WELL-BEING

Safety received a great deal more attention at Thabazimbi mine in 2011, to turn around the poor performance in 2010, and the results of these efforts were pleasing. Following a fatal accident in 2010 (the first in eight years), the year was completed without any fatalities. The LTIFR per 200,000 hours worked improved significantly, by 40% to 0.10 (2010: 0.25).

Thabazimbi mine continued to focus on four priority areas to improve safety, namely employee behaviour, the implementation of appropriate safety systems, the introduction of new technology to improve working conditions and the intensive management of contractors. The mine continued to entrench a 'culture' programme that includes visible felt leadership.

Management at Thabazimbi mine continued to engage constructively with the DMR during the year under review. A total of seven Mine Health and Safety Act 29 of 1996 (MHSA) section 54/55 instructions were imposed during the year, resulting in the loss of 30 production shifts, mainly in drilling operations. A significant feature of the year was the establishment of a mine-based tripartite structure to address health and safety, comprising the DMR, management and unions, the first meeting of which was held in September 2011. This level of co-operation between all parties is an important and value-adding achievement.

The primary occupational health risks at Thabazimbi mine are NIHL and dust. A new hearing conservation programme introduced in 2010, has yielded some success, resulting in no new NIHL cases identified during the year. Dust suppression also continued through watering and the use of dust suppressants. No dust-related occupational disease have been reported for more than nine years.

During the year, 93% of the permanent employees and 83.5% of contractors received CCT in respect of HIV/AIDS. A mine-funded new wellness centre was opened on 1 December 2011, national AIDS Day, to cater for employees, their dependants, contractors and community members. The centre will be privately run with a portion of its funding provided by Kumba. All HIV positive employees are

enrolled in the group's disease management programme (DMP) and plans are in place to include contractors through private-public partnerships.

In line with the group's holistic approach to employee well-being, emphasis is placed on the need for a work-life balance, diet, exercise and emotional stability. Overall fitness for work continues to be an area of focus, particularly in respect of women in mining. The need for new recruits to pass an initial physical assessment that simulates specific job conditions continues to be a barrier to the recruitment of women in core mining positions.

## OPERATING AND FINANCIAL PERFORMANCE

The year 2011 was challenging for Thabazimbi mine, as it approaches closure in 2016. The limited availability of ore and access to ROM material constrained production. In addition to the planned reduction in production, a slope failure that necessitated a revised geotechnical design of the pit exacerbated this position. As a result, production declined to 0.9Mt in 2011 (2010: 2Mt) as more waste needed to be mined to reach the remaining ore. The required stripping ratio continued to rise substantially during the year with waste mined amounting to 45.9Mt (2010: 35.2Mt) as the final pits are developed.

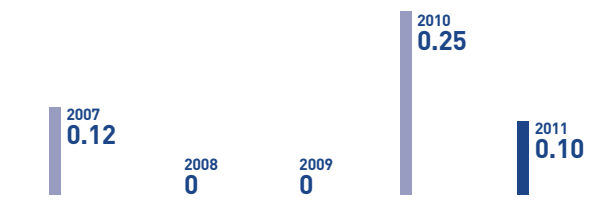
During the last half of 2011 dispatches to AMSA were low as a result of operating problems at their Newcastle plant.

Despite operational challenges there were a number of highlights during the year, the most significant and gratifying being the sustained morale of Thabazimbi mine employees, particularly against the backdrop of a mine effectively in closure mode. Work currently being undertaken on the Phoenix project is a significant motivator.

The second phase of the Tselopele asset optimisation initiative, meaning 'moving forward successfully' in Setswana, is proving to be successful. Through the implementation of mission-directed work teams, the programme empowers individuals to make effective daily decisions and to co-operate in self-directed work teams.

### LTIFR – THABAZIMBI MINE

(per 200,000 hours worked)



### EMPLOYEES AND CONTRACTORS – THABAZIMBI MINE



## REVIEW OF OPERATIONS: THABAZIMBI MINE

### CAPITAL EXPENDITURE

Capital expenditure related to the Thabazimbi mine, funded by AMSA, covered the following main areas: new haul trucks (R138m) and upgrading and safety improvements to the plant steel structures (R17m).

In addition, R238 million was incurred on pre-stripping, the costs of which are capitalised for accounting purposes.

All study costs for the Phoenix project are funded by Kumba. AMSA had previously elected not to participate in the Phoenix project and Kumba is progressing the project at its own cost and for its own benefit.

### PEOPLE

Thabazimbi mine's workforce of 1,705 people (at the end of December 2011), comprised 815 permanent and 889 contractor employees. Around 63% of permanent employees are sourced from the local community, with 67% of employees recruited from the broader Limpopo Province. Employee turnover remained low, although permanent employee numbers have declined in line with reducing production. This has largely been achieved through natural attrition. To minimise the impact on the local community, Thabazimbi mine took a strategic decision to employ contractors to undertake the short-term ramp-up in waste removal.

At the end of 2011, 48% of management was made up of HDSA employees (as defined by the Mining Charter). The retention of HDSA candidates, particularly at a junior management level, has proved to be challenging and action plans have been developed to address this.

Of the total workforce, 14% were women, while 9,3% were women in core mining jobs. While progress has been made in attracting and retaining women in mining, the Mining Charter target of 10% in core mining has not yet been achieved. The challenge of physical fitness is being addressed through pre-employment fitness training initiatives, while the positioning of mining as a viable and attractive career choice for women is being promoted through school- and university-based programmes.

Around R7.4m was spent on training and development during the year, with a particular emphasis on professionals in training, the provision of learnerships and bursaries, as well as adult basic education and training (ABET) and portable skills training.

Around 87% of employees are unionised, with another 6.4% being covered by agency shop agreements. Union relationships at the mine are mature and constructive, built over a long period of time.

### SOCIAL AND COMMUNITY DEVELOPMENT

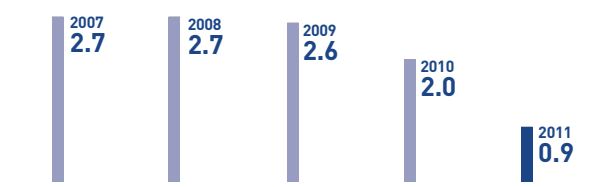
Given its location and historical association with the town of Thabazimbi, the mine plays an integral role in local economic development and support for the local municipality. While this is a positive role in many respects, mine management is conscious of

the need to ensure sufficient independence so that all services are sustainable in the longer term.

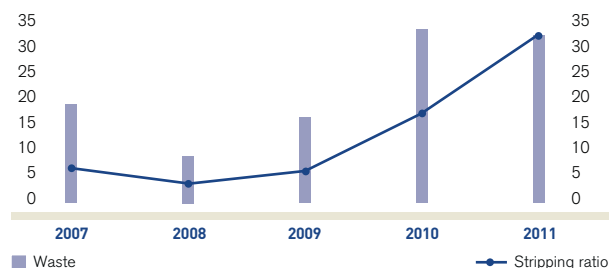
In 2011, the mine again met all its commitments in its SLPs. New SLPs for the period 2013 to 2017 will be developed in 2012. The total R9.2 million spent on social and community development was allocated to education and training (12.5%), community development (10%), sports, arts and culture (9.2%) and other donations (68.3%). Enterprise development and SLP projects include the de-bushing project, a local bakery, a cultural village, an early childhood development centre and the community wellness clinic.

### PRODUCTION – THABAZIMBI MINE

(Mt)



### WASTE (Mt) AND STRIPPING RATIO (times) – THABAZIMBI MINE



### SOCIAL AND COMMUNITY DEVELOPMENT EXPENDITURE – THABAZIMBI MINE

(R million)





Philip Ndluvu, Klaas Papa and Renie Nkovan, all chainsaw operators, packing wood to be sold to local businesses as part of a de-bushing project at Thabazimbi mine.

## ENVIRONMENTAL PERFORMANCE

Thabazimbi mine retained its ISO14001 certification following an independent audit undertaken in October 2011. The mine has four areas of focus in respect of the environment, namely water management, land, biodiversity and rehabilitation management, the management of hydrocarbons and dust management.

Thabazimbi mine continued to operate in line with its integrated water use licence (IWUL), which it was granted in October 2010. A groundwater model for the mine and its environs is being compiled, supported by samples from around seven boreholes. Intensive efforts to improve water usage efficiencies, prevent water spillages and increase water recovery were pursued during the year.

Thabazimbi mining and processing operations occupy more than 20% of the farm on which it is located; the remainder of the land is a nature conservancy area and is incorporated within the Ben Alberts game farm. A mine-owned lodge situated in the reserve is being converted into a tourist facility for post-closure use. The rehabilitation of waste dumps remains a challenge, and the DMR has been engaged to help find a solution on prescribed requirements. The mine has adopted concurrent rehabilitation and plans are in place to ensure that closure costs are minimised.

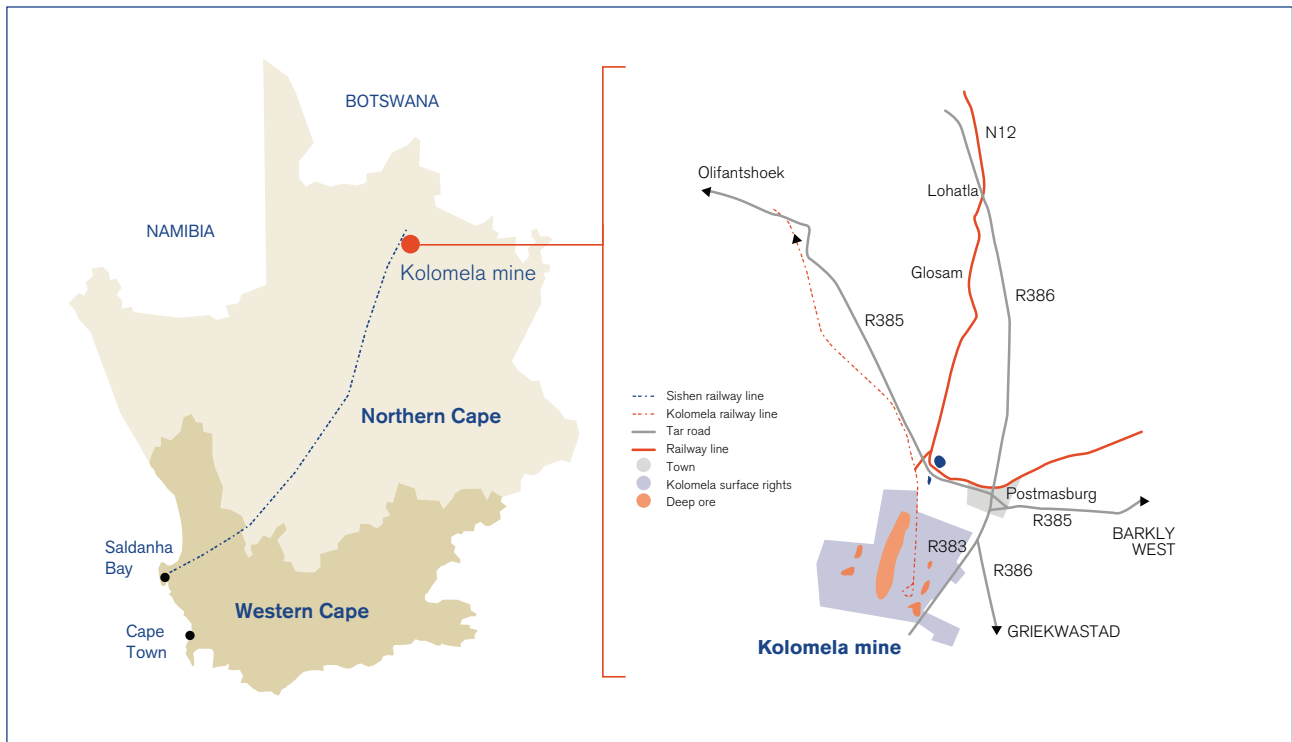
## GROWTH

It is expected that the Phoenix project will come on stream post 2016 as Thabazimbi mine closes. Extensive geological exploration drilling is continuing on site to improve the confidence in the new resource. The feasibility study will be completed in 2014, and – should a decision to proceed be given by the board – construction will start during 2015. The timing of this decision is critical given the expected reduction in operations at the current mine. See the projects section on page 65 for further details.

## OUTLOOK

Thabazimbi mine will continue to face challenging operating conditions for the remainder of its LOM, to 2016. The stripping ratio will continue to rise as the final pit is developed and will continue to place pressure on costs. Production in 2012 should exceed that of 2011, but is unlikely to reach the 2Mt produced in 2010.

# AHEAD OF SCHEDULE



## MANAGEMENT TEAM



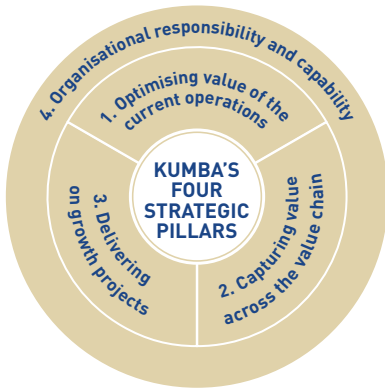
**AART VAN DEN BRINK (50)**  
 General manager  
 MSc Eng (Mining)  
 Joined Kolomela mine in 2008

**RITA GOPALKISTA (45)**  
 Manager: safety, health,  
 environment and quality  
 NDSAM, BCur (Nursing)  
 and DOH  
 Joined Kolomela mine in 2009

**GERHARD BRAND (46)**  
 Manager: mining  
 BEng (Mech), MBL  
 Joined Kolomela mine in 2009

**THEO KLEYNHANS (60)**  
 Manager: plant  
 BSc (Hons), MSc (Chem)  
 Joined Kolomela mine in 2008

**MIKE CARNEY (48)**  
 Manager: mineral resource  
 management  
 BSc (Hons) Geology  
 Joined Kolomela mine in 2009



## STRATEGY IN ACTION

### 1. Optimising value of the current operations

Cost-reduction initiatives built into project plans  
Two of the three open pits under development to ensure production flexibility in the future

### 2. Capturing value across the value chain

Delivery ahead of schedule with 0.47Mt railed early

### 3. Delivering on growth projects

Potential for expanding the mine being investigated  
Project ahead of schedule and within budget, ramp up of 4-5Mt in 2012

### 4. Organisational responsibility and capability

Excellent safety performance  
Environmental management system developed in line with ISO14001  
SLPs in place – more than R92 million spent on communities and bulk infrastructure in the local municipal area  
280 houses built for employees

## ABOUT KOLOMELA

<b>History</b>	Exploration on this project dates back to the 1950s, although the first impact studies were only undertaken in 2001. Construction started in late 2008 following the receipt of relevant permits. At the end of December 2011 the mine was 98% complete. The mine will achieve full production in 2013.
<b>Geology</b>	The Kolomela mine orebodies comprise hard, high-grade, conglomeratic and laminated haematite orebodies. The ores have been preserved as three separate orebodies within basinal and graben structures up to 2km long, 400m wide and 300m deep. Kolomela's lump ratio is expected to be 60:40.
<b>Ore Reserves and Mineral Resources</b>	Kolomela mine's Ore Reserves amounted to 203.4Mt at 31 December 2011, while Mineral Resources (excluding reserves) were 162.3Mt at 63.6% Fe. The current LOM is 28 years.
<b>Location</b>	Kolomela mine is located in Northern Cape Province, 22km from the town of Postmasburg.
<b>Mining and production</b>	Kolomela mine will be a highly mechanised open-pit operation, operating 24 hours a day, 365 days a year.
<b>Logistics</b>	A 36km rail link has been constructed to connect the mine with the IOEC, and the channel itself is being expanded. Some 9Mtpa capacity has been allocated to Kolomela mine.
<b>Markets</b>	Kolomela mine's products include 64% Fe lump and 63.5% Fe fine ore for export.
<b>Mining rights</b>	Execution of right in September 2008, for the mining of iron ore.
<b>Project pipeline</b>	The potential exists for a 6Mtpa expansion project.



**KOBUS KRUGER (45)**  
Manager: human resources  
BCom (Hons) (HR), Dip  
Labour relations  
Joined Kolomela mine in 2008

**GERT FERRIS (49)**  
Manager: operations  
supply chain  
Diploma Telecoms; BProc; LLB;  
LLM: Advance Supply Chain;  
Master Supply Chain  
Joined Kolomela mine in 2009

**ANESAN NAIDOO (33)**  
Manager: engineering  
BSc Eng (Mech), MBA, PR  
Eng, GCC  
Joined Kolomela mine in 2008

**ANALINE FIELDING (37)**  
Manager: finance  
BCom (Business management)  
Joined Kolomela mine in 2009

**GEORGE BENJAMIN (34)**  
Manager: sustainable  
development  
NDip hotel and tourism  
management  
Joined Kolomela mine in 2009

## REVIEW OF OPERATIONS: KOLOMELA MINE

### PERFORMANCE SUMMARY

	Units	2011	2010	2009
Total tonnes mined	Mt	34.6	18.6	4.0
ROM production		4.3	–	–
Waste mined		30.3	18.6	4.0
Final product	Mt	1.5	–	–
Stripping ratio	Times	7.1	–	–
Employment	At 31 Dec 2011			
Full time employees		771	534	241
Contractors	%	711	28	7
Local full time employees (Northern Cape Province)	%	87.13	–	–
Turnover	%	2	–	–
Women in core mining	%	18.10	19	–
HDSAs in management	%	58.3	51.3	–
Employees unionised or covered by collective bargaining agreements	%	73.1	–	–
Safety LTIFR	per 200,000 hours worked	0.00	0.00	0.00
Training and development expenditure	R million	16.5	10.2	3.96
Professionals in training	(No)	14	121	–
Learnerships	(No)	119	–	–
Social and community development expenditure	R million	30.9	38.9	–
Expenditure with BEE suppliers	%	62.31	–	–
No of houses constructed		280	–	–

### SAFETY, HEALTH AND WELL-BEING

Safety performance at Kolomela mine has been exemplary. On the mining front, the production teams achieved 5 million lost time injury-free hours over a period of two-and-a-half years, since inception of the mining operations in 2009. The Kolomela project team reached 17 million lost time injury-free hours by the end of December 2011. The project team's safety performance is a benchmark in Anglo American plc and the learnings have been shared with other business units in the Anglo American plc Group.

An important feature was the appointment and training of additional safety officers and auditors, and the implementation of further safety systems and practices in an intensive effort to manage and mitigate risk. The presence of a large number of contractors on site, even though contractors are subject to the same safety regimes and standards as employees, complicated the safety function.

A critical factor contributing to the success of the safety function is the clear distinction between mining and project areas, along with clear and unambiguous handovers of legal responsibility at the appropriate time.

### OPERATING AND FINANCIAL PERFORMANCE

Excellent progress was made with the development of Kolomela mine and project during 2011, which was delivered five months ahead of schedule. While the mining operation and development projects are managed separately, they are reported together in this review.

Mining at Kolomela mine started in September 2009, with waste stripping rising to 30.3Mt in 2011 (2010:18.6Mt). Waste stripping is expected to exceed 30Mtpa by 2013 as the mine reaches full capacity, with a stripping ratio of around 3.3 times. Production of the first ore was achieved during the third quarter of 2011 and commercial production was reached in December 2011.

The exceptionally high rainfall that affected Sishen mine in the first half of the year also had an impact on Kolomela mine. While the mining team managed to maintain volumes, the lack of access to the pit at times led to the slower-than-planned opening up of the orebody. The planned build-up of a stockpile ahead of the plant should mitigate this problem of access to the pit in future rainy periods.

#### WASTE MINED AT KOLOMELA MINE (half yearly) (Mt)



## REVIEW OF OPERATIONS: KOLOMELA MINE

On-mine operating costs are expected to be slightly lower than at Sishen mine, as there is no DMS or jig beneficiation facility. However, the delivered cost at the port will be somewhat higher owing to higher rail transport and port costs.

Kolomela mine will produce direct shipping ore (DSO) for the export market. A 36km rail link has been constructed by Transnet to connect the mine with the IOEC. This forms part of Transnet's R4 billion/13Mpta expansion of this channel, of which 9Mt has been allocated to Kolomela mine. The load-out station was commissioned in late 2011, and the first empty train arrived on site in mid-October 2011 while construction was still under way. The first 342 wagons were loaded and dispatched on 17 November 2011, with commissioning of dispatches having begun in December 2011, five months ahead of schedule.

A particular feature of the progress made at Kolomela mine has been the successful interface between the mining and project teams on all aspects of the project, and the appointment and development of a cohesive management and employee team.

### CAPITAL EXPENDITURE

By year end the total capital expenditure at Kolomela mine was R7.0 billion, with R1.5 billion having been spent in 2011. The project is expected to be completed within the R8.5 billion budget. The remaining capital expenditure for 2012 will be spent primarily on the 420 houses that still need to be built and outstanding mining equipment that still needs to be delivered as well as on technical de-bottlenecking as the mine is ramped up.

### PEOPLE

At the end of 2011, Kolomela mine employed 771 permanent employees and 711 contractors. Kolomela mine will employ 840 permanent employees and approximately 150 contractors at full production.

Management has placed a great deal of emphasis on local job creation – 87.13% of permanent employees are sourced from the Northern Cape Province (against a target of 75%). Skills searches are only extended outside the province if the required skills cannot be sourced locally.

The recruitment of HDSAs into management positions and women into core mining jobs has been a key target since the project's inception. At the end of 2011, 58.3% of management was made up of HDSA employees (as defined by the Mining Charter). Of the total workforce, 20.71% were women, while 18.10% were women in core mining jobs. The recruitment of women in technical positions remains a challenge simply given the demand for their services, the limited skills pool and the sometimes arduous nature of the work. One of the ways in which Kolomela mine is addressing this challenge is through local recruitment, creating talent pools by allowing women with grade 12 (without science, maths and technical subjects) to study at the Kathu college to prepare them for potential engineering learnerships, allocating scholarships to school children studying maths and science for potential bursaries, and the re-engineering of jobs and equipment to facilitate the employment of women.

Some R16.5 million was spent on training and development during the year. Kumba has invested extensively in its training facilities, which has enabled the mine to attract and train recruits from the local community over a period of two years. Filling highly skilled positions is still proving to be difficult, given the lack of local infrastructure (schools, housing) in Postmasburg, but this is being addressed through the company's infrastructure development programme.

Around 87% of employees are unionised or covered by collective bargaining agreements, with the National Union of Mineworkers (NUM) and Solidarity representing approximately 62% of employees. Union relationships at the mine are being established; a two-day session was held in April 2011 between management and union representatives to nurture and develop a partnership approach to relations.

Given the location of the mine and the rapid ramp-up in production, as well as Kumba's approach to housing and accommodation, the construction and provision of housing is a critical element of the project's timeline. This includes civis and bulk infrastructure. By December 2011 280 houses had been constructed. A further 420 houses are still to be constructed. The project has a total housing budget of R1.04 billion.

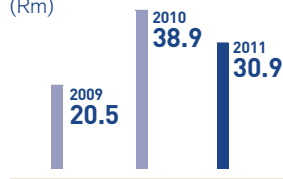
### SOCIAL AND COMMUNITY DEVELOPMENT

A priority of the Kolomela mine SLP is to address the needs of communities in its host municipality, Tsantsabane. Specific areas of support include the provision of infrastructure, community development, enterprise development and services (such as health, welfare and education), which is in line with national government priorities and local integrated development plans.

Kolomela mine has invested extensively in stakeholder engagement processes and relationships have, for the most part, been good and constructive. It is a reality, however, that the biggest challenge faced by the community is unemployment – around 40% – which is exacerbated by inadequate levels of education, which are mostly the result of a lack of childhood development programmes. Not being able to secure jobs is a cause for concern within this community and one that a single mining company is not going to be able to address. As Kumba is intent on planning for the longer term, Kolomela mine invests intensively in early childhood development programmes to ensure that children develop the requisite skills and knowledge they need to become the next generation of Kumba employees.

#### SOCIAL AND COMMUNITY DEVELOPMENT EXPENDITURE – KOLOMELA MINE

(Rm)



Some R60.71 million has already been spent on corporate social investment and community initiatives to date, with R30.9 million spent during 2011.

These social and economic initiatives during the mine's ramp-up period have been designed to respond to the immediate challenges in the local community. A particular focus has been poverty reduction, with several social enterprise and community welfare projects having been initiated. Primary beneficiaries, mostly previously disadvantaged women, have been identified to ensure empowerment takes place, and that relevant skills are transferred and developed. The emphasis is on self-sustaining interventions to avoid communities becoming dependent on limited resources, and so that they may, in the longer term, begin to generate their own income.

A critical shortcoming is the lack of infrastructure in the area, which is being addressed with the investment of more than R50 million on bulk services in the local municipal area. This support will ensure that the town has the potential to grow and provide basic services to residents. The mine has also invested directly in key priority areas, such as access roads in the surrounding communities, storm water projects and sewerage works. A new Anglo American plc Zimele hub, a Business Development Support Centre, is being set up to assist both emerging and established entrepreneurs to increase their capacity. The hub will offer loan funding for entrepreneurs for start-ups and growing the capacity of existing small businesses.

Kumba's social and community development strategy which has been developed, is being implemented to address strategic focus areas, namely education, skills, health, social enterprise and infrastructure development. A particular focus area underlying all of the above is the development of local youth.

## ENVIRONMENTAL PERFORMANCE

Kolomela mine's environmental management plan is being developed in line with ISO14 0001. This process is set to start in June 2012, and will seek certification in June 2013.

Environmental priorities for Kolomela mine include water management, biodiversity and land management, rehabilitation, dust and noise and light pollution.

Kolomela mine received its integrated water use licence (IWUL) in June 2008. The new application was submitted in September 2010, and the mine is waiting for the decision of its licence to include new water which was not covered in the previous IWUL. The dewatering of the pits at Kolomela mine will be the most significant environmental impact, and may be felt particularly by local farmers, and is exacerbated by the combined effect of other mines in the area. The Kolomela mine is currently extracting 0.82 million litres per hour to dewater the pits for mining operations; of this 8.23% is used by the mine as process water, and the balance is exported to the Sedibeng water authority, which in turn sells it to users at Kathu, Hotazel, Postmasburg and other Kalahari communities.

An extensive monitoring network, comprising some 350 boreholes, has been set up to enable the establishment of a groundwater baseline, and to facilitate a thorough understanding of the effects of the dewatering programme. There is extensive engagement with local farmers, and the mine has equipped all farmers to monitor their own boreholes.

Kolomela mine has adopted a progressive approach to rehabilitation, with pits being rehabilitated as mining progresses. It is inevitable that mine land will be affected through the process of mining, and Kolomela mine has set aside an offset area to address this.

Roads within the mining area are being coated with a dust suppressant, and a widespread dust monitoring system - with some dust fallout buckets on 32 neighbouring farms - has been established. A challenge is to distinguish between dust fallout from mining operations and from farming activities and local roads. The rehabilitation of areas exposed during construction is being expedited.

Noise levels are monitored and lighting has been designed and placed to minimise light pollution.

## GROWTH

Approximately 150Mt of resources currently fall outside of the LOM plan at Kolomela mine, and will be evaluated as part of an expansion plant study at the mine. A concept study investigating the utilisation of this resource as well as a rescheduling of the current LOM, has the potential to add a further 6Mt of production a year, and will go into pre-feasibility level of study in 2012. The feasibility study will be completed in 2012.

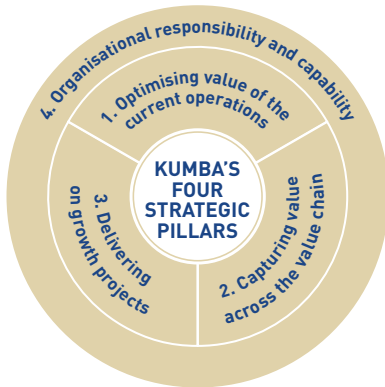
See the projects section on page 65 for further details.

## OUTLOOK

Ramp-up to full production is progressing well, with full production planned for 2013. It will be critical to achieve the appropriate balance between waste and ore removal, as the approach adopted now will set the platform for years to come. In 2012, Kolomela mine is planning to produce between 4 and 5Mt of product, with waste tonnes between 30 and 35Mt in 2012. On-mine costs are expected to be slightly higher than the on-mine costs at Sishen mine, as the mine is not yet at full production. In 2013, when Kolomela mine is at full production, on-mine costs are expected to be somewhat lower than Sishen mine.

Around R80 million has been allocated to corporate social investment initiatives in 2012.

# ENHANCING THE VALUE CHAIN



## STRATEGY IN ACTION

### 1. Optimising value of the current operations

Structuring the product portfolio to extract maximum value from niche products

### 2. Capturing value across the value chain

Securing long-term logistics contracts to protect FOB margins  
Strategically located stockpile in proximity to major market

### 3. Delivering on growth projects

Close collaboration with Transnet on the operation of the IOEC to cater for growing export volumes

### 4. Organisational responsibility and capability

Stringent vessel vetting procedures to ensure highest safety standards  
Professional Ocean Freight Management (OFM) organisation

## MANAGEMENT TEAM



### TIMO SMIT (43)

Global head: iron ore marketing and logistics  
MSc Technical (Applied Physics), University of Delft; PhD (Materials Science and Engineering), MIT

### LIONEL KRUGER (37)

Manager: export operations  
Saldanha Bay  
BComm (Acc)

### SVEN OLDENDORF (51)

Global head: Anglo American plc Ocean Freight Management  
BA, Institute of Chartered Shipbrokers

### ROBERT BROWNLEE (55)

General manager: Kumba International Trading SA  
BComm (Acc); BDP

### JOHAN DEETLEFS (52)

General manager: Kumba Hong Kong Limited and Kumba Shipping Hong Kong Limited  
BCommpt (Hons); Advanced Tax Certificate; Mining Tax Certificate; CTA; CFA



Ore ship in the Saldanha Bay harbour.

## PERFORMANCE SUMMARY

	Units	2011	2010	2009	2008	2007
Total volumes railed to port of Saldanha Bay (including Saldanha Steel)	Mt	39.1	36.5	34.6	28.1	24.5
Total volumes loaded at port of Saldanha Bay	Mt	37.6	36.7	34.6	25.0	24.2
Export sales	Mt	37.1	36.1	34.2	24.9	24.2
Domestic sales	Mt	6.4	7.0	5.8	8.1	8.9
Total volumes shipped by Kumba	Mt	21.7	18.7	21.5	6.2	4.1
Shipping profit	US\$ million	62.1	51.6	80.0	38.0	28.2

## OPERATING AND FINANCIAL PERFORMANCE

Kumba ensures the delivery of products from its mines to customers around the globe. Its shipping and logistics infrastructure, relationships and competencies continued to provide the group with a key competitive advantage during the year.

There are three critical elements in the logistics chain:

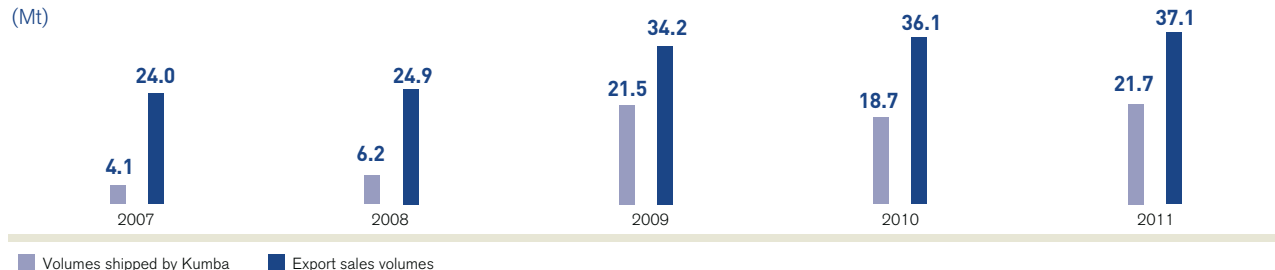
- **The efficient handling and transportation of products by rail** and via the port of Saldanha Bay. The rail and port operations are owned and managed by state-owned Transnet and therefore outside of the direct control of management. However, the

relationship between Kumba and Transnet is highly valued and well managed to ensure volumes produced by Sishen and Kolomela mines are railed and loaded at the port.

- **The optimisation of Kumba's shipping business**, through Anglo American plc's OFM team. Set up in early 2010, OFM oversees the group's freight management programme, chartering vessels in the spot market and initiating negotiations for long-term contracts of affreightment, together with Kumba's Hong Kong management team, to ensure competitive freight rates to reduce exposure to volatility in the shipping markets, protect FOB margins and even earn incremental profit.
- **The strategic placement of stockpiles** at ports close to major markets.

## VOLUMES SHIPPED BY KUMBA vs EXPORT SALES

(Mt)



## REVIEW OF OPERATIONS: SHIPPING AND LOGISTICS

### RAIL

Performance by Transnet during the year was very good, with all contractual commitments having been met. There were no significant losses owing to derailments or industrial action as was the case in 2010.

A total of 39.1Mt of iron ore material produced and supplemented by stockpiled ore at Sishen and Kolomela mines was railed by Transnet via the IOEC to the port of Saldanha Bay, an increase of 7.0% on 2010. Kumba utilised super-tariff capacity made available by Transnet to accommodate the increase in volumes railed in 2011. A further 5.3Mt was railed to AMSA inland plants, including 1.4Mt from Thabazimbi mine.

Of the product railed to Saldanha Bay, 1.14Mt was supplied to AMSA's Saldanha Steel plant, leaving a total of 37.9Mt was therefore available for export.

The annual tariff increase structure agreed between Kumba and Transnet is based on a basket of indices comprising the Producer Price Index (PPI), labour costs and electricity.

See the discussion on growth on this page for further information.

### PORTS

Volumes loaded at the port of Saldanha Bay rose by 2.4% to 37.6Mt. At year end, Kumba held stockpiles of material at the port of Saldanha Bay (1.3Mt) and Qingdao, China (1.7Mt, including ore in transit from Saldanha Bay to Qingdao).

The commissioning of the R106 million automated rapid sampling and sample preparation facility located at the port of Saldanha Bay continued during the year with capital expenditure of R21 million spent. This facility has been designed to comply with the requirements of ISO 3082 (2009): *Sampling and Sample Preparation Procedures*, and will seek ISO accreditation against this standard in 2012. The new facility will allow us to invoice on the basis of load port analysis in the future.

### SHIPPING AND EXPORTS

Most of Kumba's product was shipped to customers in its key markets in China, Europe, Japan and South Korea, which together accounted for 99% of Kumba's export sales. Small volumes were shipped to the Middle East, North Africa and the Americas.

Customers in Kumba's traditional markets (Europe, Japan and South Korea) mostly arrange their own shipping, but Kumba undertook the shipping of more than 80% of its ore sold into China. In total, Kumba arranged shipping for 21.7Mt of product during the year (2010: 18.7Mt). Operating profit from shipping operations rose by 20% to US\$62.1 million, at a margin of US\$2.86 per tonne (2010: US\$2.72 per tonne).

Two 10-year contracts of affreightment, one with German shipping company Oldendorff Carriers GmbH and the other with Japanese shipping company Nippon Yusen Kishiki Kiasha Limited, were concluded in the past year. These contracts are for a total yearly tonnage of 6Mt.

### SAFETY, HEALTH AND ENVIRONMENT

Kumba's Saldanha Bay port site is guided by the Occupational Health and Safety Act, and all group safety and health procedures are applied to its employees and contractors. No LTIs occurred in 2011.

A stringent vessel vetting system has been introduced to make sure that vessels chartered by Kumba are safe. This vetting system is also being rolled out to vessels chartered by Kumba's customers.

All environmental permits related to the rail and port operations are held by Transnet and a revised air emission licence was obtained during the year to cater for increased export volumes (up to 60Mt a year).

### GROWTH

The IOEC has been expanded from 47Mtpa to 60Mtpa. Of this additional 13Mtpa, 9Mtpa has been allocated to the Kolomela mine. Kumba's total allocation on this export channel will then rise to 44Mt per annum.

The joint planning undertaken by Transnet and Kolomela mine has ensured that the logistical aspects of the project have been met. The first wagons were received by Kolomela mine in October 2011, prior to the hot commissioning of the mine's siding and load-out station and the first ore was railed to the port of Saldanha Bay in November 2011, enabling first shipments of Kolomela ore to China and Europe in December 2011.

A joint Transnet/industry task team, of which Kumba is a member, is conducting a pre-feasibility study on the expansion of the export channel's capacity beyond 60Mtpa. This is expected to be completed in the first quarter of 2012.

### OUTLOOK

Kumba's export sales volumes are expected to increase by around 3Mt in 2012 in line with the ramp-up of Kolomela mine, offset by the reduction in stockpiles available for exports. The additional volume is largely destined for China. The volume of ore for which Kumba arranges shipping on behalf of its customers is expected to increase accordingly. Kumba continues to negotiate further long-term freight contracts to shield itself from volatility in freight markets and lock in favourable freight rates.



## STRATEGY IN ACTION

### 1. Optimising value of the current operations

Projects to exploit lower B- and C-grade resources  
Projects benefiting tailings and waste

### 2. Capturing value across the value chain

Technology partnerships being developed in support of the DMR's beneficiation strategy  
Part of industry/Transnet task team pro-actively studying the expansion of the IOEC beyond 60Mtpa

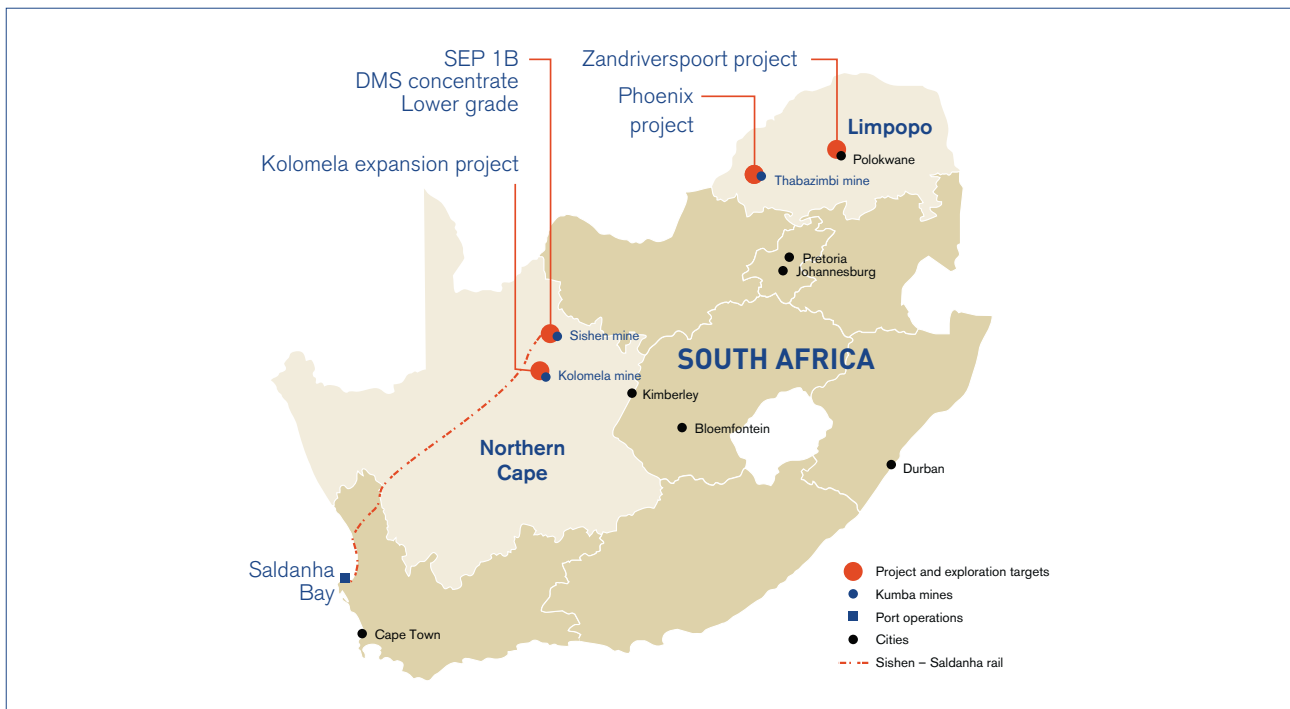
### 3. Delivering on growth projects

Kolomela brought into production within budget and ahead of schedule  
Actively studying beneficiation at Kolomela mine  
Exploration at Limpopo and Northern Cape provinces opportunities

### 4. Organisational responsibility and capability

Project management capabilities developed in-house  
Excellent safety performance at Kolomela mine

## PROJECT PIPELINE



## INTRODUCTION

### South African growth pipeline

Kumba's strategic intent is to increase South African production to 70Mtpa by 2019. The first significant step in this process has been the development of Kolomela mine, which will bring on stream production of 9Mtpa from 2013 – see page 54. Excluding Kolomela mine, it is anticipated that an additional 15Mtpa of the growth in production could come from the Northern Cape Province and the remaining 6.4Mtpa from Limpopo Province. These growth projects largely leverage technology developments to process lower-grade material. At the same time, the company remains focused on its ore replacement strategy and continues to seek opportunities to further exploit its current resources.

Kumba's production growth target is dependent on market economics and both the global and South African investment climates. The most significant potential enabler, however, is the expansion of rail and port capacity on the IOEC at acceptable tariffs.

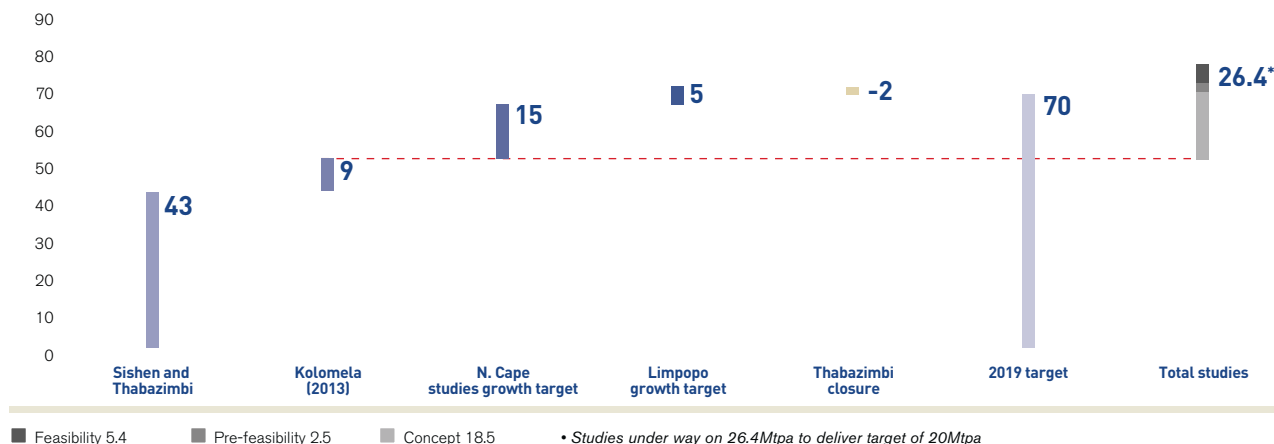
A joint task team comprising representatives from Transnet and iron ore and manganese producers was established in 2010 to explore the potential to expand the export channel beyond the current 60Mtpa design capacity.

A pre-feasibility study on this expansion is envisaged to be completed in the first quarter of 2012. Kumba will align its production growth plan with the outcome of this study.

Kumba's most advanced potential projects are discussed in greater detail in the following pages. Four of these are in the Northern Cape Province and two in Limpopo Province.

## PROJECT PIPELINE AND EXPANSION

### PROJECT PIPELINE POTENTIAL (Mtpa)



### African growth

In 2011, Kumba announced the evolution of its strategy, from being a South African growth company to an African growth company and its intention to seek a further 10Mtpa to 20Mtpa by 2020, from sources in west and central Africa. Desktop studies, several due diligences and site visits have been undertaken and a range of prospective iron ore regions have been identified and targeted, as have near-term production projects and greenfields exploration prospects. Early-stage discussions with potential third parties have taken place since the initial announcement, and key factors such as access to water, energy and transport infrastructure are being considered for each region.

An African team has been set up and will partner with Anglo American plc to ensure a well-governed and structured initiative.

### NORTHERN CAPE PROVINCE GROWTH PORTFOLIO

Kumba has a number of brownfields expansion projects currently under development or investigation in the Northern Cape Province. Together these have the potential to increase production by 15Mtpa. The average life span of these projects is 20 years.

#### KOLOMELA EXPANSION PROJECT

<b>Location</b>	Kolomela mine, Northern Cape Province
<b>Product</b>	Similar product quality as currently being produced by Kolomela mine 64% Fe and 60:40 lump fine ratio
<b>Stage of project</b>	Concept study to be completed in 2012, feasibility study planned for 2014
<b>Potential first production</b>	2017
<b>Potential production</b>	6Mtpa
<b>Life of project</b>	20 years

The Kolomela expansion project is a brownfields development of a beneficiation facility at Kolomela mine. It is the intention to increase production by 6Mtpa by 2017 through re-scheduling of the current LOM plan as well as processing ore currently excluded from the LOM plan.

#### SISHEN LOWER GRADE PROJECT

<b>Location</b>	Sishen mine, Northern Cape Province
<b>Product</b>	Lower quality products
<b>Stage of project</b>	Concept study to be completed by 2014. Feasibility study by 2017
<b>Potential first production</b>	2019
<b>Potential production</b>	3 to 6Mtpa
<b>Life of project</b>	20 years

The Sishen Lower Grade project is envisaged to produce additional product from the material available following the revised definition for the larger optimised pit shell (and which cannot currently be treated by the jig plant). Additional mining will be required to access the newly defined material. Lower grade material previously classified as waste will be reclassified as ore.

An appraisal study indicated there was sufficient merit to progress to concept study phase. Further work is required to characterise the ore and to develop an appropriate treatment technology to enable the integration of this potential product into Sishen mine's product suite. Work continues to better define and upgrade the evaluation of the ore resource.

#### SEP 1B PROJECT

<b>Location</b>	Sishen mine, Northern Cape Province
<b>Product</b>	Fine ore – 0.2mm to 1mm
<b>Stage of project</b>	Currently at feasibility stage. To be completed in 2012
<b>Potential first production</b>	2013
<b>Potential production</b>	0.75Mtpa, by increasing the jig plant yield by 3%
<b>Life of project</b>	20 years

The project involves the beneficiation of the -1+0.2mm fraction of the jig plant ROM feed which is currently discarded. This fraction was not initially included in the jig plant scope owing to the technical risks associated with the beneficiation and dewatering of this product. These technical risks have since been mitigated. This project has the potential to increase the jig plant product yield by 3%, and to create 18 jobs. Construction of a pilot test module commenced in 2011 to assist with the final technology selection.

## SISHEN DMS CONCENTRATE

<b>Location</b>	Sishen mine, Northern Cape Province
<b>Product</b>	High-grade iron ore -200 micron fraction or pellet feed
<b>Stage of project</b>	Feasibility study to be completed by 2013
<b>Potential first production</b>	2017
<b>Potential production</b>	1.1Mtpa by 2018 Envisaged to be expanded to 4Mtpa by 2019
<b>Life of project</b>	20 years

This brownfield expansion project will produce high-grade iron ore concentrate from the DMS plant's tailings. In the first phase of this expansion around 1.1Mtpa of -200 micron fraction product will be blended with the Sishen fines. By 2019 an additional 3Mtpa could be produced by including the treatment of the jig tailings and old Sishen tailings facilities. The project has the potential to ultimately create 120 new jobs.

## LIMPOPO PROVINCE GROWTH PORTFOLIO

Kumba has two greenfields projects currently under development or study in Limpopo Province. Together they have the potential to increase production by around 9.5Mtpa, of which 6.5Mtpa will be attributable to Kumba. The average life-span of these projects is 22 years.

### PHOENIX PROJECT

<b>Location</b>	Thabazimbi mine, Limpopo Province
<b>Product</b>	Fine ore (75%) and lump ore (25%)
<b>Stage of project</b>	Feasibility study to be completed by 2014
<b>Potential first production</b>	2016
<b>Potential production</b>	3.4Mtpa
<b>Life of project</b>	20 years

This project will exploit the large quantities of banded iron formation material available in the Thabazimbi mine Ore Reserves and remnants of high-grade haematite. Historically, the high-grade haematite contained in this orebody was exploited via an underground mine. A new open-pit mine will be established, along with a new liberation and beneficiation plant. The feasibility study is expected to be completed in 2014. Geological exploration drilling is being undertaken from surface and underground tunnels, and bulk sample test work will be done in 2012. Kumba regards the Phoenix project, which is located within the Thabazimbi mining rights area for which SIOC is the mining rights holder, and is a separate ring-fenced development, as separate from the remainder of the Thabazimbi mine from a commercial and technical perspective. AMSA had previously elected not to participate in the Phoenix project and Kumba is progressing the project at its own cost and for its own benefit.

## ZANDRIVIERSPOORT – POLOKWANE IRON ORE COMPANY

<b>Location</b>	Near Polokwane, Limpopo Province
<b>Product</b>	Concentrate or blast furnace pellets High-quality product – 69% Fe
<b>Stage of project</b>	Phase 1 – feasibility by 2013 Phase 2 – concept study
<b>Potential first production</b>	Phase 1 – 2015 (2.5Mtpa) Phase 2 – 2019 (additional 3.5Mtpa)
<b>Potential production</b>	6Mtpa
<b>Life of project</b>	23 years

The Polokwane Iron Ore Company is a 50:50 joint venture with AMSA. This greenfields project aims to exploit a magnetite resource with low contaminant levels and would involve the construction of a new open-pit mine and beneficiation plant. The project's development is planned in two phases: a feasibility study is currently being completed to establish the potential for a small-scale mining operation producing 2.5Mtpa of concentrate. This would be Phase 1 of the project, scheduled for implementation in 2014. Phase 2, which involves a 15Mtpa ROM operation producing approximately 6Mtpa of product, is currently the subject of a concept study. This project could potentially come on stream in 2019 and has the potential to ultimately create 1,000 jobs.

## RESEARCH AND DEVELOPMENT

Kumba has invested extensively in research and development (R&D). Its technical services division oversees the group's metallurgical research and development programmes which are aimed not only at ensuring the optimal exploitation of resources, but also at adding value to the product for the benefit of the customer.

Kumba's Value-In-Use department seeks to understand the value of Kumba products to customers and to develop new products and alternative ways of using existing products.

While the volume of very fine iron ore pellet feed is expected to increase globally, this very fine product cannot be used directly in the steel-making process and must be agglomerated. Pelletising is a means of agglomerating very fine ore into pellets that can be used by blast furnaces, direct reduction shafts and kilns. The conventional pelletising process is very costly as it requires large amounts of natural gas to bake the pellets at around 1,250°C. For this reason, alternative ways of using and agglomerating concentrates are being investigated.

Kumba is designing and constructing a strategic pilot plant facility at Sishen mine. This facility will consist of pilot crushing and beneficiation testing processes that will enable Kumba to perform bulk tests on the lower-grade resources in the Northern Cape Province to determine the optimal technology to yield a saleable product from these resources. An R&D pilot unit is also being designed to wash iron ore in a cyclone at circulating densities of up to 4.5g/cm<sup>3</sup>.

## EXPLORATION

Kumba's exploration team is scheduled to drill approximately 7km in the next four to five years, with the aim of identifying additional resources aligned with the company's growth strategy. This strategy focuses on identifying high-grade haematite resources close to existing mines to enable the use of existing infrastructure.

Kumba's Sibelo project focuses on better defining brownfields and greenfields opportunities in the Northern Cape Province. Currently six prospecting rights are being explored. Several very promising intersections were made in 2011 close to the Kolomela mine and exploration continues here.

The Kolomela expansion project is a brownfields project adjacent to Kolomela mine which aims to use resources within the current mining right but outside of the current LOM. This project is currently in the concept phase and exploration continues to better define the declared inferred resource of 72Mt. Currently eight diamond drill rigs are operational and it is planned to have between 10 and 14 drill rigs in use in 2012.

Exploration projects are at a more advanced stage in Limpopo Province where exploration continues at the Phoenix project. Despite challenging mountainous topography, an extensive exploration programme is under way, involving 14 drill rigs and three underground tunnels. Two smaller exploration targets in the Thabazimbi mine area are also being investigated.

The Sishen, Kolomela and Thabazimbi mines are exploring for additional resources outside their current LOM plans but within their mining right areas. Currently being investigated are several additional deposits which have been identified as having the potential to either increase the lives of these mines or to contribute to volume growth from these operations.

## STAY IN BUSINESS CAPITAL EXPENDITURE

Major stay in business capital projects are set out below.

- In order to accommodate the expansion of the Sishen mine pit to the west, two projects are being undertaken:
  - The Sishen South-Westerly Expansion project involves the relocation of certain infrastructure towards the west. Approved in July 2010 at a capital cost of R1.2 billion, the project started in 2011 and is expected to be completed by the end of 2014.
  - The Dingleton relocation project involves investigating the viability of the relocation of the town of Dingleton. The pre-feasibility study was approved in November 2010 and the feasibility study is currently under way. The capital cost is of the order of R1.2 billion, with construction expected to commence in 2013. Completion is scheduled for 2015.
- The Sishen heavy machinery equipment replacement project. Approximately R1.3 billion has been allocated annually until 2014, with around R1.5 billion for associated infrastructure to maintain this fleet.

## INTRODUCTION AND SCOPE

Kumba site and corporate office technical services departments strive for quality, reliability and consistency in the annual estimation and reporting of Kumba's Ore Reserves and Mineral Resources.

Reporting is governed by The South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC Code - 2007 edition; 2009 amended version), a Kumba Resource and Reserve reporting policy and supporting reporting procedures and templates derived from the latter.

The material contained in this document serves as an indication of Kumba's Ore Reserve and Mineral Resource status at 31 December 2011. It is not an inventory of all mineral occurrences drilled or sampled, but is a realistic record of those, which under assumed and justifiable technical and economic conditions, may be economically extractable at current and in the future. A more comprehensive version of the Kumba Ore Reserves and Mineral Resources is published on the Kumba website: [www.angloamericankumba.com](http://www.angloamericankumba.com).

Ore Reserve estimates for the mining operations were updated two months before the end of the financial year, while Mineral Resource estimates, reported in addition to Ore Reserves, were reported according to the latest available geological models. Typically, these are updated six to eight months before the end of the year of reporting.

Kumba, as the parent holding company, has access to its iron ore Reserves and Resources through SIOC via a 73.9% shareholding. Ore Reserve and Mineral Resource estimates are stated in full (100% shareholding). The shares attributable to Sishen Iron Ore Company (SIOC), Kumba and Anglo American plc (AA plc) are summarised in Table 1.

## GOVERNANCE AND COMPETENCE

Ore Reserve and Mineral Resource estimation, governance and execution processes are continually refined. In 2010 Kumba's Executive Committee identified the Mineral Resource estimation

and LOM estimation processes as critical to the company's success and sanctioned the development of standardised responsibilities and accountabilities across the company.

All competent persons have been duly appointed and made aware of their responsibility to undertake unbiased Ore Reserve and/or Mineral Resource estimation at an operational or project level. They have sufficient relevant experience in the style of mineralisation, type of deposit and mining method, as well as in the activity for which they have taken responsibility, to qualify as a 'competent person', as defined by the 2007 SAMREC Code. The Ore Reserve and Mineral Resource estimates have been signed off by the relevant competent persons, who consent to the inclusion of the information in this report in the form and context in which it appears.

## MINERAL RIGHTS AND SECURITY OF TENURE

All Ore Reserves and Mineral Resources quoted in this report are contained within areas that have new order mining and prospecting rights held by SIOC. Kumba has ensured that the lives of the granted and executed new order mining rights are of sufficient duration to support the production schedules from which the 2011 Ore Reserves and subsequent saleable product figures have been derived.

The same applies to all Mineral Resources stated for 2011. They are contained within areas for which new order mining or prospecting rights have been granted and executed. Kumba's portfolio of prospecting rights, which is held in SIOC, comprises seven registered new order prospecting rights. With the exception of two prospecting rights adjacent to Thabazimbi mine, where rights have been granted for three years, all SIOC prospecting rights granted since 2006 have been for five-year periods. The first of the new-order prospecting rights expired in 2011. In cases where Kumba has a continued interest, the necessary renewal or conversion applications are timeously submitted.

**TABLE 1: SIOC, KUMBA AND ANGLO AMERICAN PLC ATTRIBUTABLE PERCENTAGES FOR MINERAL ASSETS**

	% attrib. to SIOC	% attrib. to Kumba	% attrib. to other	% attrib. to AA plc via Kumba <sup>1</sup>
Kolomela mine	100	73.9	26.1	48.2
Sishen mine <sup>2</sup>	100	73.9	26.1	48.2
Thabazimbi mine	100	73.9	26.1	48.2
Phoenix project	100	73.9	26.1	48.2
Zandriverspoort project <sup>3</sup>	50.0	37.0	63.0	24.1

<sup>1</sup> SIOC is 73.93% owned by Kumba, which in turn is 65.22% owned by Anglo American plc (as at 31 December 2011).

<sup>2</sup> On 21 December 2011 judgment was delivered in the High Court regarding the status of the mining rights at Sishen mine. The High Court held that, upon the conversion of SIOC's old order mining right relating to the Sishen mine properties in 2008, SIOC became the exclusive holder of a converted mining right for iron ore and quartzite in respect of the Sishen mine properties. The High Court held further that as a consequence, any decision taken by the DMR after such conversion in 2008 to accept or grant any further rights to iron ore at the Sishen mine properties was void. Finally, the High Court reviewed and set aside the decision of the Minister of Mineral Resources or her delegate to grant a prospecting right to ICT relating to iron ore as to a 21.4% share in respect of the Sishen mine properties. On 3 February 2012, both the DMR and ICT submitted applications for leave to appeal against the High Court judgment. SIOC has noted an application for leave to present a conditional cross appeal, in order to protect its rights. SIOC is awaiting a date for the hearing of the application for leave to appeal.

<sup>3</sup> Zandriverspoort is a 50:50 Joint Venture between AMSA and SIOC.

## ORE RESERVES AND MINERAL RESOURCES

### RISK, LIABILITY AND ASSURANCE

Kumba provides assurance for the quoted estimates through a rolling audit schedule. This means that each site undergoes an external audit once every three years. Apart from validating adherence to the SAMREC Code as far as reporting practices and actual reported figures are concerned, the scope of each external audit also includes an evaluation of the:

- Mineral Resource estimation;
- Ore Reserve estimation; and
- LOM planning processes.

Site visits by the external auditors are compulsory. The external audit of the Zandrivierspoort project was not conducted in 2011 and has been postponed until 2012. This departure from normal protocol was the result of Kumba's decision to prematurely terminate the contract with the existing external audit service provider. The level of expertise required specifically in respect of the Mineral Resource estimation has prompted the company to source iron ore expertise outside South Africa and a contract was awarded in December 2011 to the XSTRACT consultancy firm in Australia.

The Zandrivierspoort project will be audited in 2012, together with Kolomela mine. An independent internal review was conducted on the geological modelling (including the estimation method) at Thabazimbi mine in September 2011.

### GROUP SUMMARY OF RESOURCE AND RESERVE ESTIMATES

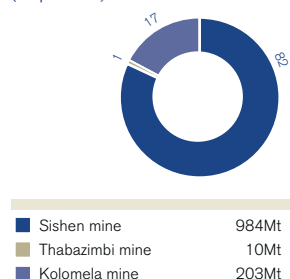
As at 31 December 2011, Kumba had access to an estimated unattributable Ore Reserve of 1.2 billion tonnes at an average unbeneficiated grade of 60.0% Fe at its three mining operations: The breakdown is as follows:

- Kolomela mine (203.4Mt @ 64.6% Fe);
- Sishen mine (983.9Mt @ 59.1% Fe), and
- Thabazimbi mine (10.4Mt @ 60.7% Fe).

This relates to a total Ore Reserve of 885 million tonnes if Kumba Iron Ore's 73.9% attributable shareholding in the various operations is considered.

#### KUMBA 2011 ORE RESERVE PORTFOLIO

(% per site)



**TABLE 2: KUMBA'S ORE RESERVE STATEMENT FOR 2011 COMPARED WITH 2010**

Operation/Project	% attrib. to Kumba	Reserve category	2011					2010				
			Tonnage (Mt)	Grade (%Fe) Average	Grade (%Fe) Cut-off <sup>1</sup>	Reserve life <sup>2</sup> Years	LOM <sup>2</sup> Years	Tonnage (Mt)	Grade (%Fe) Average	Grade (%Fe) Cut-off	Reserve life	LOM Years
<b>Mining operations</b>												
Kolomela mine <sup>3</sup>	73.9	Proved	109.7	64.9	42			118.5	64.5	48		
		Probable	93.7	64.3	42			84.0	64.1	48	Not	
		Sub total	203.4	64.6	42	23	27	202.4	64.3	48	Reported	28
Sishen mine <sup>4</sup>	73.9	Proved	525.8	58.9	40			576.3	59.8	40		
		Probable	458.1	59.3	40			500.6	58.7	40	Not	
		Sub total	983.9	59.1	40	18	21	1,077.0	59.3	40	Reported	20
Thabazimbi mine <sup>5</sup>	73.9	Proved	2.7	61.4	50			9.0	61.1	50		
		Probable	7.7	60.4	50			4.9	60.6	50	Not	
		Sub total	10.4	60.7	50	4	6	13.9	61.0	50	Reported	6
Kumba - mining operations		Proved	638.2	59.9				703.8	60.6			
		Probable	559.5	60.1				589.5	59.5			
		Sub total	1,197.7	60.0				1,293.3	60.1			
<b>Group</b>												
Kumba - total Ore Reserves		Proved	638.2	59.9				703.8	60.6			
		Probable	559.5	60.1				589.5	59.5			
		Total	1,197.7	60.0				1,293.3	60.1			

**Notes:**

- Tonnages are quoted in dry metric tonnes and million tonnes is abbreviated as Mt.
- Rounding of figures may cause computational discrepancies.
- The figures reported represent 100% of the Ore Reserves and Mineral Resources, the percentage attributable to Anglo American plc is stated separately.
- All the mining operations apply conventional open cut mining methods to deliver haematite ore as ROM for further beneficiation.

<sup>1</sup> The cut-off grade used for Ore Reserves is variable and is dependent on the beneficiability and/or blending capacity of the diluted ore over time, which is iteratively determined during the LOM plan scheduling to achieve a scheduling grade target that is set to meet the client specifications. The % Fe cut-off illustrated is therefore the lowest of a range of variable cut-offs for the various mining areas. It includes dilution material and can, in certain cases, be less than the Mineral Resource cut-off grade.

<sup>2</sup> Kumba has adopted the standardised approach, of quoting Reserve life in 2011. It is calculated from the scheduled Ore Reserves (Proved, Probable) within the mine plan and extraction schedule with explicit managerial intent, and based on reasonable prospects for economic extraction and viable modifying factors. Previous Kumba Iron Ore Reserve Statements have quoted a LOM figure which, in addition to Ore Reserves, includes Inferred Mineral Resources occurring inside final pit layout boundaries and are considered practically and economically mineable (these Inferred Mineral Resources are distinguishable from other not considered for LOM planning by adding the abbreviation 'considered for LOM' or 'outside LOM' in Table 4. It should be noted that the Inferred Mineral Resources considered for LOM planning are not reported as Ore Reserves and do not include modifying factors as quoted in Table 4.

- <sup>3</sup> Kolomela mine's Ore Reserves increased with 1Mt from 2010 to 2011. This can primarily be assigned to the fact that the annual ROM production of 1.5Mt has been offset by a lowering of the cut-off grade applied during the LOM plan scheduling to equalise plant feed grade in the initial years, which previously exceeded client quality specifications. The Proved : Probable ratio changed from 1 : 0.7 in 2010 to 1 : 0.9 in 2011 based on a complete revision of the Mineral Resource classification using a quantitative scorecard approach, that was carried through to the Ore Reserve classification.
- <sup>4</sup> The 93.0Mt net decrease in the Sishen mine Ore Reserves from 2010 to 2011 is the result of 50.1Mt ROM production in 2011 as well as a complete revision of the Sishen LOM schedule to consider a major reclassification in Mineral Resources (Indicated Banded Iron Formation low-grade ore material downgraded to Inferred status), pre the conversion to Ore Reserves. The 1 : 0.9 Proved : Probable ratio was maintained by blending additional Measured Mineral Resources of higher contaminant values into the LOM schedule in 2011, which in 2010 remained unused on virtual ROM stockpiles at the end of the mine life i.e. considered as mining losses.
- <sup>5</sup> Overall the Thabazimbi mine Ore Reserves decreased by 3.6Mt from 2010 to 2011. In addition to a 0.8Mt Ore Reserve ROM production, a further 0.9Mt Inferred Mineral Resources were extracted as ROM in 2011. Thabazimbi mine conducted a complete revision of its geological interpretations, geological modeling and subsequent Mineral Resource estimation and classification in 2011. This resulted in a reduced and reclassified Mineral Resource, particularly at the Kumba mining area to consider the fact that Thabazimbi mine mainly relies on percussion drilling to define its Mineral Resources and perform grade estimations. Some of these Mineral Resource effects were carried through to the Ore Reserves.

**TABLE 3: KUMBA'S SALEABLE PRODUCT FOR 2011 COMPARED WITH 2010**

Operation/Project	Reserve category	2011		2010		
		Metallurgical recovery (%)	Tonnage (Mt)	Grade (%Fe) Average	Tonnage (Mt)	Grade (%Fe) Average
<b>Mining operations</b>						
Kolomela mine	Proved	99.8	109.5	65.0	118.2	64.5
	Probable	99.8	93.5	64.4	83.8	64.1
	Sub total	99.8	203.0	64.7	202.0	64.3
Sishen mine	Proved	74.7	393.0	65.0	439.1	65.5
	Probable	76.7	351.3	65.1	366.3	65.1
	Sub total	75.6	744.3	65.0	805.4	65.3
Thabazimbi mine	Proved	84.8	2.3	63.2	7.8	62.6
	Probable	76.6	5.9	63.0	4.4	61.9
	Sub total	78.7	8.2	63.0	12.2	62.3
Kumba - mining operations	Proved	79.1	504.8	65.0	565.2	65.3
	Probable	80.6	450.7	64.9	454.5	64.9
	Sub total	79.8	955.5	64.9	1,019.7	65.1
<b>Group</b>						
Kumba - total Ore Reserves	Proved	79.1	504.8	65.0	565.2	65.3
	Probable	80.6	450.7	64.9	454.5	64.9
	Sub total	79.8	955.5	64.9	1,019.7	65.1

The saleable product (Table 3) derived from the Ore Reserves via empirically determined and reconciled beneficiation algorithms, is estimated at an unattributable 955.5Mt (with an average beneficiated 64.9% Fe).

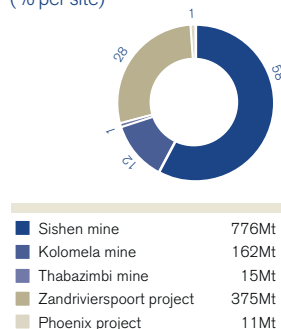
The Kumba Mineral Resource portfolio comprises various haematite orebodies at its three mining operations:

- Kolomela mine (162.3Mt @ 64% Fe);
- Sishen mine (776.4Mt @ 56.6% Fe), and
- Thabazimbi mine (15.2Mt @ 61.8% Fe).

In addition, Kumba is investigating the feasibility of mining lower grade ore at Thabazimbi mine, via its Phoenix project study. At present only the small 11.3Mt high-grade portion of the orebody with an average *in situ* Fe grade of 63%, which has historically been reported, is retained in the 2011 Mineral Resource statement. The remainder of Kumba's 1.3 billion tonne Mineral Resource is made up by the magnetite (with surfacial haematite) orebody at Zandriverspoort (50:50 JV project with AMSA) in Limpopo Province, which totals 375.3Mt at an estimated *in situ* grade of 34.6% Fe.

The remaining Mineral Resource in addition to Ore Reserves relates to a total of 852 million tonnes if Kumba's 73.9% (37% for Zandriverspoort) attributable shareholding in the various operations and projects is applied.

**KUMBA 2011 MINERAL RESOURCE PORTFOLIO**  
(% per site)



## ORE RESERVES AND MINERAL RESOURCES

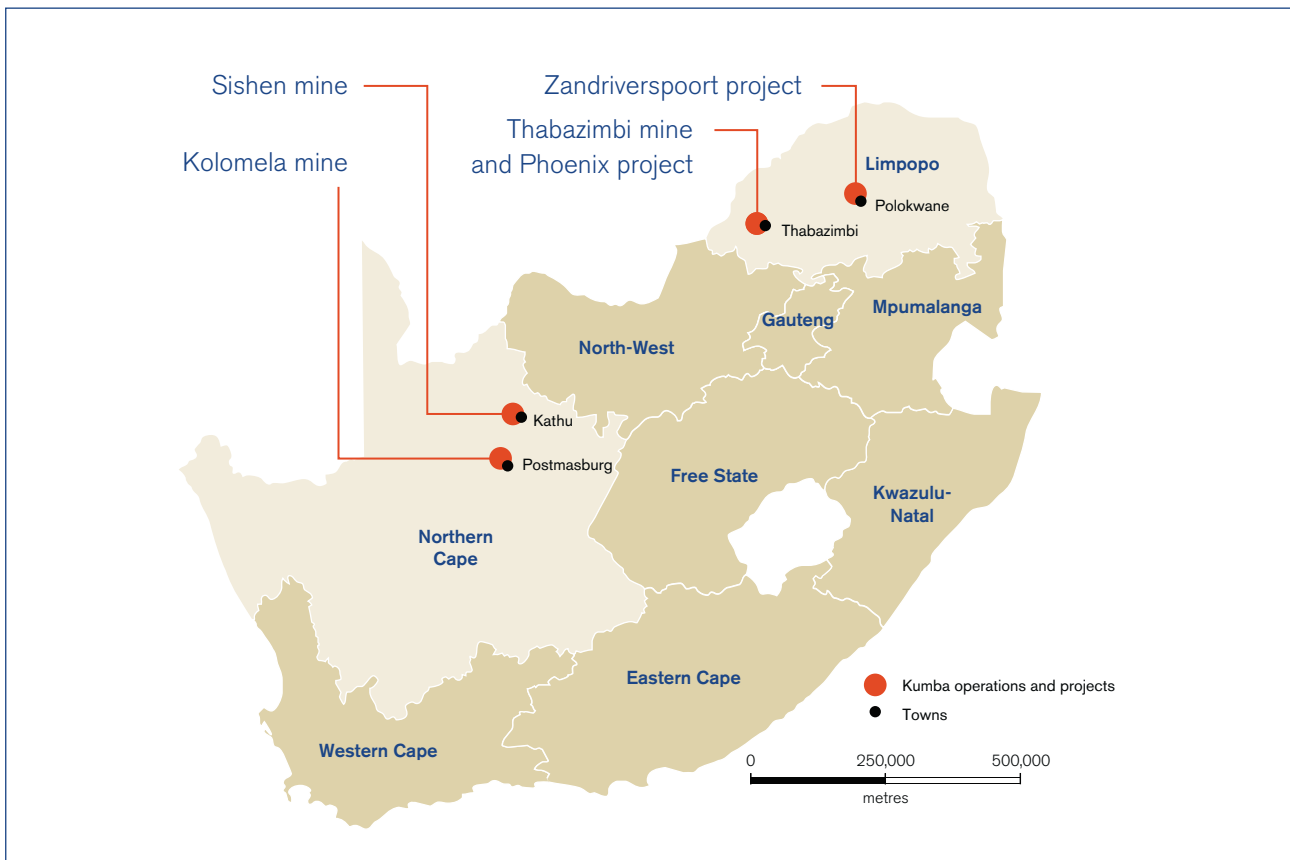
**TABLE 4: KUMBA'S MINERAL RESOURCE (IN ADDITION TO ORE RESERVES) STATEMENT FOR 2011 COMPARED WITH 2010**

Operation/Project	Ore Type	% attrib. to Kumba	Resource category	2011			2010		
				Tonnage (Mt)	Grade (%Fe) Average	Cut-off*	Tonnage (Mt)	Grade (%Fe) Average	Cut-off
<b>MINING OPERATIONS</b>									
<b>Kolomela mine</b> <sup>1</sup>	Haematite	73.9	Measured	46.6	65.0	50	49.1	65.1	50
– Mineral Resources in addition to Ore Reserves			Indicated	16.1	65.1	50	20.0	65.0	50
			Inferred (considered for LOM)	45.9	64.3	50	35.1	65.7	50
			Inferred (outside LOM)	53.7	62.7	50	47.7	62.5	50
			Sub-total	162.3	64.0	50	151.9	64.4	50
<b>Sishen mine</b> <sup>2</sup>	Haematite	73.9	Measured	111.1	61.3	40	127.0	59.4	40
– Mineral Resources in addition to Ore Reserves			Indicated	274.8	61.6	40	410.5	58.5	40
			Inferred (considered for LOM)	173.4	49.1	40	17.9	59.7	40
			Inferred (outside LOM)	217.2	53.8	40	116.2	59.6	40
			Sub-total	776.4	56.6	40	671.6	58.9	40
<b>Thabazimbi mine</b> <sup>3</sup>	Haematite	73.9	Measured	1.1	61.1	55	3.4	61.8	55
(area outside the ring-fenced Vanderbijl area)			Indicated	7.2	62.0	55	1.2	61.2	55
– Mineral Resources in addition to Ore Reserves			Inferred (considered for LOM)	3.0	61.8	55	0.9	61.9	55
			Inferred (outside LOM)	3.9	61.8	55	0.9	61.5	55
			Sub-total	15.2	61.8	55	6.4	61.6	55
<b>Thabazimbi mine</b>	Haematite	73.9	Measured				8.1	62.8	55
(ring-fenced Vanderbijl area)			Indicated				1.8	64.3	55
– Mineral Resources in addition to Ore Reserves			Inferred (considered for LOM)				0.0	0.0	
			Inferred (outside LOM)				1.5	64.2	55
			Sub-total				11.3	63.2	55
<b>Kumba Iron Ore – Mining operations</b>			Measured	158.8	62.4		187.7	61.1	
– total Mineral Resources in addition to Ore Reserves			Indicated	298.1	61.8		433.4	58.9	
			Inferred (considered for LOM)	222.2	52.4		53.9	63.6	
			Inferred (outside LOM)	274.7	55.7		166.2	60.4	
			Total	953.9	57.9		841.2	60.0	
<b>GROUP</b>									
<b>Zandrivierspoort</b> <sup>4</sup>		37.0	Measured	128.5	34.9	23	126.1	34.5	30
– Mineral Resources in addition to Ore Reserves	Magnetite and haematite		Indicated	182.3	34.5	23	152.4	34.2	30
			Inferred (considered for LOM)	0.0	0.0		0.0	0.0	
			Inferred (outside LOM)	64.5	34.2	23	68.9	34.3	30
			Total	375.3	34.6	23	347.4	34.4	30
<b>Phoenix project</b> <sup>5</sup>	Haematite	73.9	Measured	0.0	0.0	55			
– Mineral Resources in addition to Ore Reserves			Indicated	0.0	0.0	55			
			Inferred (considered for LOM)	0.0	0.0				
			Inferred (outside LOM)	11.3	63.0	55			
			Total	11.3	63.0	55			
<b>Kumba Iron Ore – projects</b>			Measured	128.5	34.9		126.1	34.5	
– total Mineral Resources in addition to Ore Reserves			Indicated	182.3	34.5		152.4	34.2	
			Inferred (considered for LOM)	0.0	0.0		0.0	0.0	
			Inferred (outside LOM)	75.8	38.5		68.9	34.3	
			Grand total	386.6	35.5		347.4	34.4	
<b>GROUP</b>									
<b>Kumba</b>			Measured	287.3	50.1		313.7	50.4	
– Grand total Mineral Resources in addition to Ore Reserves			Indicated	480.3	51.5		585.8	52.5	
			Inferred (considered for LOM)	222.2	52.4		53.9	63.6	
			Inferred (outside LOM)	350.5	52.0		235.2	52.8	
			Grand total	1,340.4	51.5		1,188.6	52.5	

Notes:

- The tonnages are quoted in dry metric tonnes and million tonnes is abbreviated as Mt.
  - Rounding of figures may cause computational discrepancies.
  - Mineral Resource figures are reported at 100% irrespective of percentage attributable to Kumba Iron Ore.
  - The term Inferred Mineral Resource (outside LOM) refers to that portion of the Mineral Resources not utilised in the LOM plan of the specific mining operation.
  - The term Inferred Mineral Resource (considered for LOM) refers to that portion of the Mineral Resources utilised in the LOM plan of the specific mining operation; reported without having any modifying factors applied - therefore the term 'considered for LOM' instead of 'inside LOM'.
  - Due to the uncertainty that may be attached to some Inferred Mineral Resources, it cannot be assumed that all or part of an Inferred Mineral Resource will necessarily be upgraded to an Indicated or Measured Resource after continued exploration.
- \* The cut-off grade quoted for all the Kumba sites except the Zandriverspoort project, is a fixed chemical cut-off grade. In the case of Zandriverspoort, the 23% Fe cut-off grade is a minimum value, with the cut-off grade being spatially dynamic. A minimum yield of 34.3% is required to define eventual economic extractability. This yield has been empirically derived considering the total in-situ %Fe as well as the in-situ magnetite: haematite ratio and a break-even cost that cannot be published because of the sensitivity thereof and considering SIOC's joint venture partner in the project - AMSA.
- <sup>1</sup> Kolomela mine quotes a net 10.4Mt increase in Mineral Resources from 2010 to 2011. This is primarily the result of geological model refinements in 2011 to consider a structural reinterpretation of the orebodies conducted by an external structural geology expert. In total, 3.6Mt of the Inferred Mineral Resources are extrapolated Inferred Mineral Resources as opposed to the remainder, which are interpolated Inferred Mineral Resources.
  - <sup>2</sup> The significant 104.8Mt (16%) increase in Sishen mine's Mineral Resources can mostly be attributed to a reclassification of the Banded Iron Formation Mineral Resources to an Inferred status. This was done to reflect the lower confidence in grade estimates associated with the historical selective high-grade sampling practices. Furthermore, this caused a decrease in the overall average Fe grade above the 40% cut-off.
  - <sup>3</sup> Thabazimbi mine reported an increase in Mineral Resources of 8.8Mt from 2010 to 2011. The main reason was a significant increase in the long-term forward-looking iron ore price, which, if converted to a revenue factor to derive an optimistic pit shell to spatially define eventual economic extraction as is the practice at Kumba, included a larger volume of ore than was the case in 2010. This had the effect of converting mineral inventory into Mineral Resources, especially at the Kumba mining area.
  - <sup>4</sup> In 2011, the Zandriverspoort project stated an overall 27.9Mt (8%) increase in Mineral Resources compared with 2010. The major contributing factors were the update of the geological model with new borehole sample data as well as a revision of the cut-off grade based upon an empirical calculation of a metallurgical recovery factor derived from in situ %Fe and magnetite: haematite ratio.
  - <sup>5</sup> The Phoenix project addresses possible or potential beneficiation opportunities for the haematite ore (as reported in 2010 for the ring-fenced Vanderbijl mining area) in combination with other low-grade material in the same area (not reported). The total haematite Mineral Resource in this project has been classified as Inferred, mostly owing to the low confidence associated with the historical information currently considered in the project resource definition.

**FIGURE 1: GEOGRAPHIC LOCATIONS OF KUMBA OPERATIONS AND PROJECTS FOR WHICH ORE RESERVES AND MINERAL RESOURCES HAVE BEEN DECLARED**



## ANCILLARY RESERVE AND RESOURCE INFORMATION BY OPERATION/PROJECT

### Kolomela mine

Kolomela mine has been designed as a direct shipping ore operation where conventional open-pit drilling and blasting, shovel-and-truck loading and hauling and mining processes are applied to the group of orebodies from different pits.

A combination of ROM buffer and product stockpile blending on site, as well as further blending with the product from Sishen mine, are used to ensure that the final product adheres to the required client grade specifications. Product size is controlled via a crushing and screening plant for all buffer stockpile and pit ROM material.

Pre-stripping started in 2009. The crushing and screening facility was hot commissioned in 2011 during which year 1.5Mt of saleable

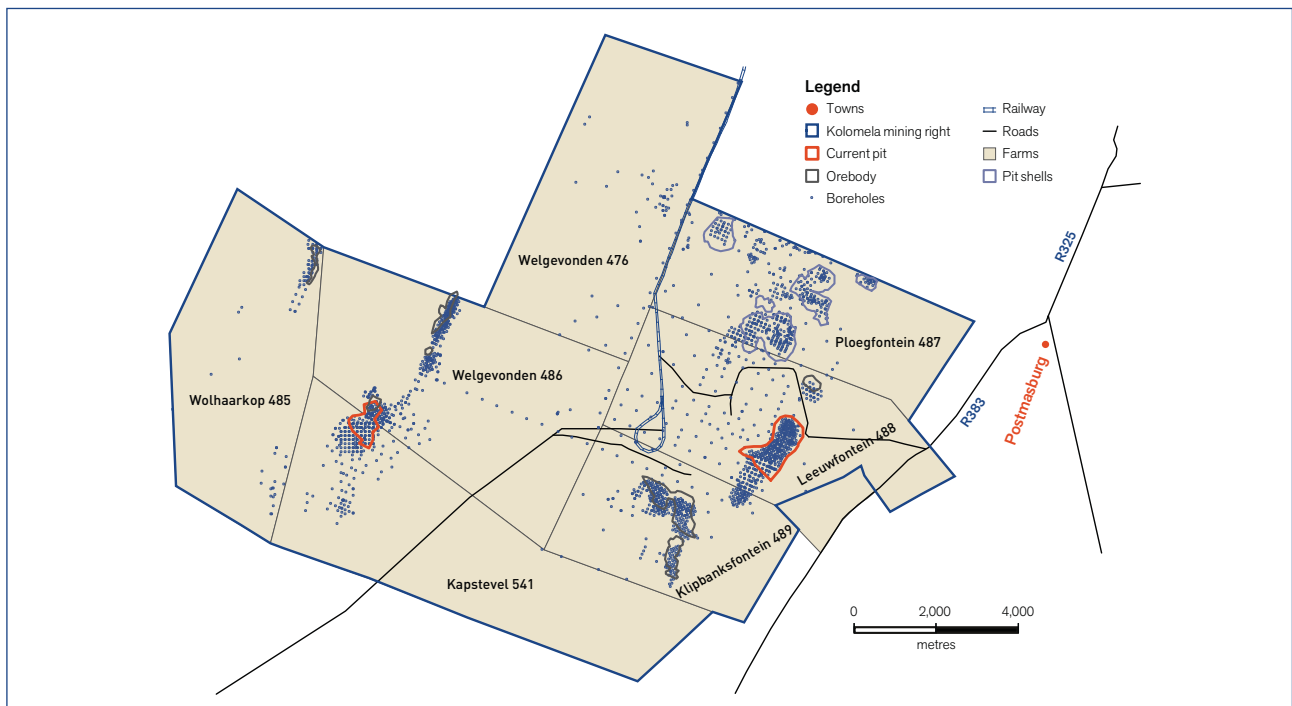
product were produced on site, of which 0.4Mt were railed to the blending beds at the port of Saldanha Bay. Production is well ahead of the planned schedule to produce ore only in the second quarter of 2012. Kolomela mine is designed to produce 9Mt of saleable product a year and will ramp up to full capacity in 2013. The iron ore will be transported to Saldanha Bay export harbour via the IOEC. The Kolomela mine product will be blended with Sishen mine's product and will be marketed to the group's current overseas client base.

The historical saleable product depletion of Kolomela mine is summarised in Table 5.

**TABLE 5: HISTORICAL SALEABLE PRODUCT DEPLETION AT KOLOMELA MINE**

Year	Mt
2010	0
2011	1.5

### KOLOMELA MINING RIGHT AREA NEAR THE TOWN OF POSTMASBURG IN THE NORTHERN CAPE PROVINCE



## ORE RESERVES AND MINERAL RESOURCES

### Sishen mine

Ore is extracted at Sishen mine by opencast method. The current mining process entails the conventional topsoil removal and stockpiling, followed by drilling and then blasting of waste lithologies and ore. Overburden is backfilled in the pit or hauled to waste rock dumps on the edge of the pit. The iron ore is loaded according to blend (grade) requirements and transported to the beneficiation plants, where it is crushed, washed and screened.

Each size fraction is separated and beneficiated using a ferrosilicon medium or jigging process before being stockpiled on the product beds. Plant slimes are pumped to evaporation dams and the plant discard material is stacked on a separate waste dump. Seven iron ore products (conforming to different chemical and physical specifications) are produced. The ores are reclaimed from the product beds and loaded into trains, to be transported to local steel mills and Saldanha Bay for export to international markets.

In 2011 the total tonnes mined at Sishen mine increased by 36% from 125.3Mt in 2010 to 170.9Mt, 120.8Mt of which were waste, as estimated at the time of reporting. Waste mining activities are increased to mitigate the decrease in flexible access to ore which is caused by the ever-increasing depth at which mining intersects the orebody. Total production at Sishen mine decreased by 5% from 41.4Mt in 2010 to 38.9Mt in 2011.

Production through the DMS plant did not meet the 2011 design capacity of around 28.4Mt and delivered 25.4Mt of saleable product, 2.6Mt less than anticipated. The deficit in supply was made up from existing product stockpiles. The jig plant throughput outperformed budgeted targets, with production in 2011 totalling 13.5Mt.

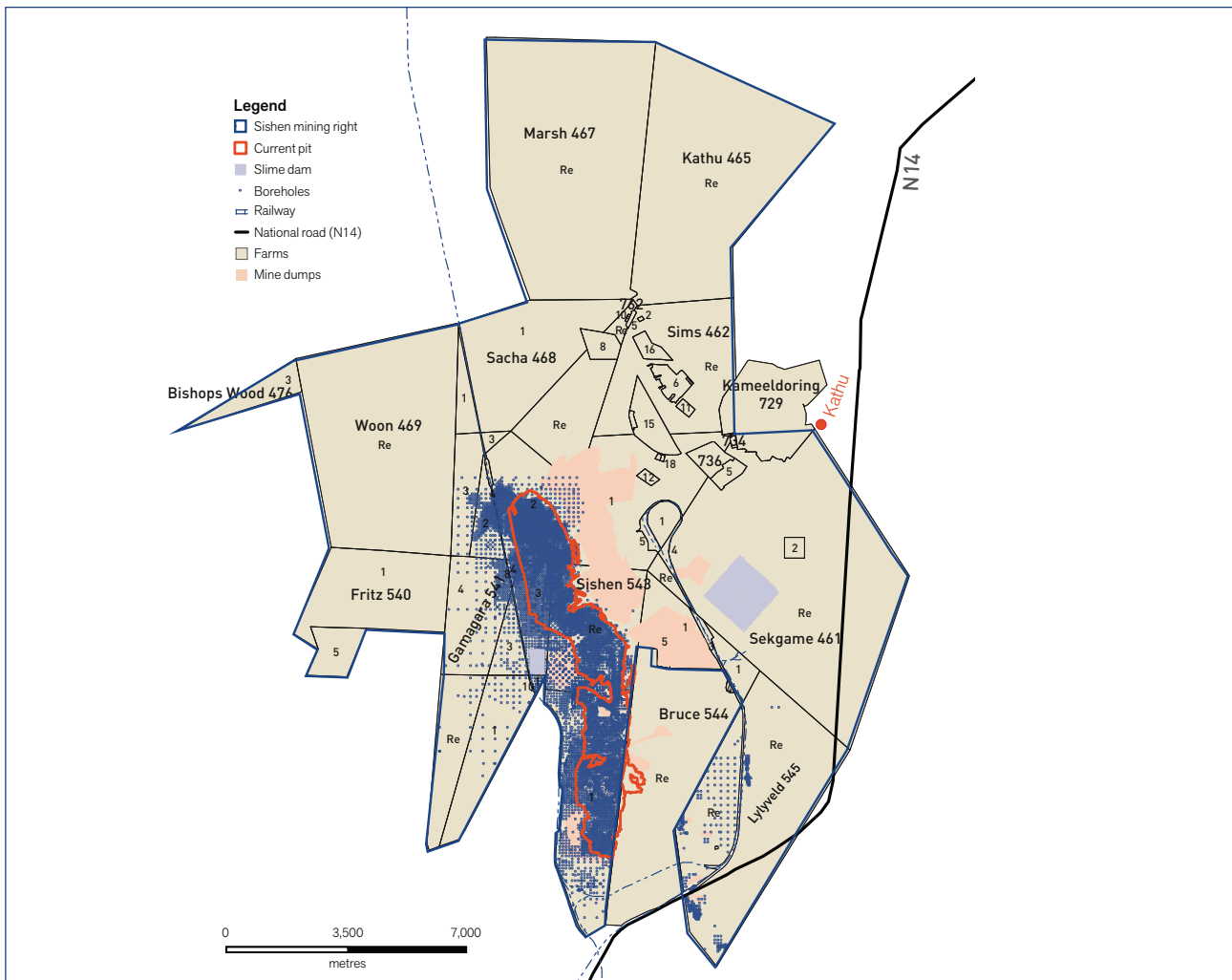
Most of Sishen mine's iron ore was exported.

The historical saleable product depletion of Sishen mine is summarised in Table 6.

**TABLE 6: HISTORICAL SALEABLE PRODUCT DEPLETION AT SISHEN MINE**

Year	Mt
2005	28.5
2006	28.7
2007	29.7
2008	34.0
2009	39.4
2010	41.3
2011	38.9

### SISHEN MINING RIGHT AREA NEAR THE TOWN OF KATHU, NORTHERN CAPE PROVINCE



## Thabazimbi mine

Thabazimbi mine's product is sold exclusively to AMSA. The mine is a captive operation that operates on a cost plus 3% management fee basis. The lump and fine high-grade haematite product is transported, mostly by rail, to AMSA's steel works at Vanderbijlpark and Newcastle.

Thabazimbi mine produces primarily high-grade (>60% Fe) haematite iron ore, with some very minor specularite ore, by means of open-pit mining. Annual beneficiated production for 2011 was 0.9Mt, which equates to an average 75,000 tonne product per month. The mine is in the process of scaling down, having reached a very mature stage after mining for excess of 50 years, with a remaining foreseen reserve life of 6 years (including Inferred Material), pending the market requirements of AMSA. It is envisaged that production will decline as the mine is nearing closure, to enable delivery of a constant product grade.

Thabazimbi mine extracts iron ore via the conventional opencast mining methods of drilling and blasting followed by loading and hauling via a truck and shovel fleet. The mining is conducted in pits that are geographically separated from one another. Waste production for 2011 was estimated at 44.2Mt. In total 1.7Mt iron ore was extracted from the pits, of which 1.1Mt was delivered as ROM to the plant, while the remainder resulted in a ROM buffer stockpile

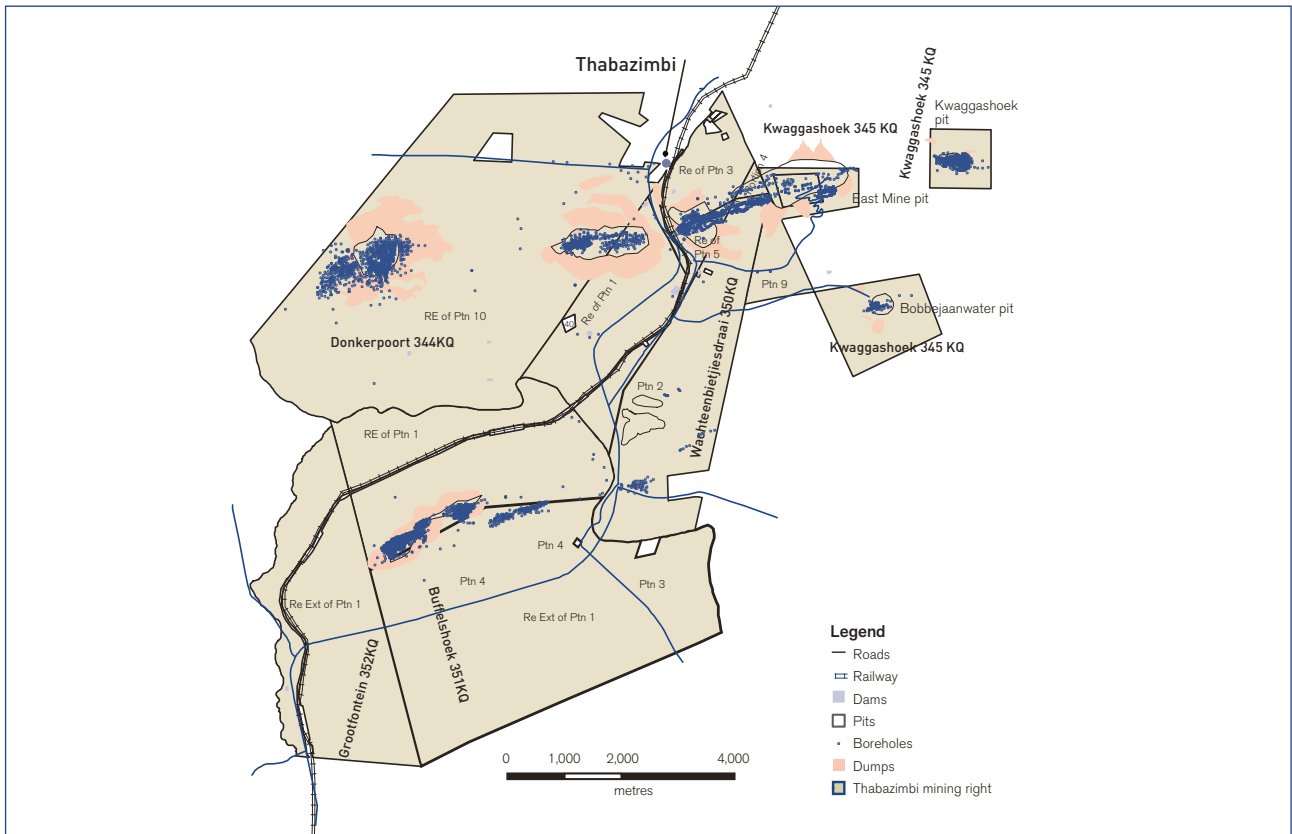
growth of 0.7Mt. The ROM material is beneficiated through a DMS plant. Where pits are far removed from the plant, ore is trucked to crushers located closer to the pits. The crushed material is then transported via conveyor belt to a stockpile that feeds the plant. After beneficiation the saleable product is stockpiled on product beds, which in turn is reclaimed and primarily transported by rail to the relevant AMSA steel mill.

The historical saleable product depletion of Thabazimbi mine is summarised in Table 7.

**TABLE 7: HISTORICAL SALEABLE PRODUCT DEPLETION AT THABAZIMBI MINE**

Year	Mt
2005	2.5
2006	2.4
2007	2.7
2008	2.7
2009	2.5
2010	2.1
2011	0.9

## THABAZIMBI MINING RIGHT AREA NEAR THE TOWN OF THABAZIMBI, LIMPOPO PROVINCE



## ORE RESERVES AND MINERAL RESOURCES

### Phoenix project

The potential of this resource has triggered a number of investigations over the years. The first extensive investigation was conducted by the Iscor Research Department (Iscor was a parastatal South African steel company – the forerunner of AMSA) in the late 1950s. Subsequent to this a number of investigations indicated that beneficiation was possible but at a prohibitive cost.

Kumba regards the Phoenix project, which is located within the Thabazimbi mining rights area, for which SIOC is the mining rights holder, and is a separate ring-fenced development, as separate from the remainder of the Thabazimbi mine, both from a technical and commercial perspective. The application of the beneficiation technology being considered is interpreted to fall outside the scope of a supply agreement with a third party, and the Mineral Resources, historically quoted as part of the Thabazimbi mine resource register, were identified and ring-fenced as a separate project in 2010.

The high-grade *in situ* haematite Mineral Resources (Fe > 60%) for Phoenix project have historically been estimated at 11.3Mt (8.1Mt Measured, 1.8Mt Indicated and 1.5Mt Inferred) occurring outside the old inactive Vanderbijl pit layout but inside the Vanderbijl optimistic (eventual economically extractable) pit shell. These historically estimated Mineral Resources are currently under review as part of the Phoenix project evaluation study and will be updated in 2012 according to Kumba's geological modelling and estimation standards.

The total haematite Mineral Resource in this project has been classified as Inferred, mostly due to the low confidence associated with the historical information currently considered in the project resource definition.

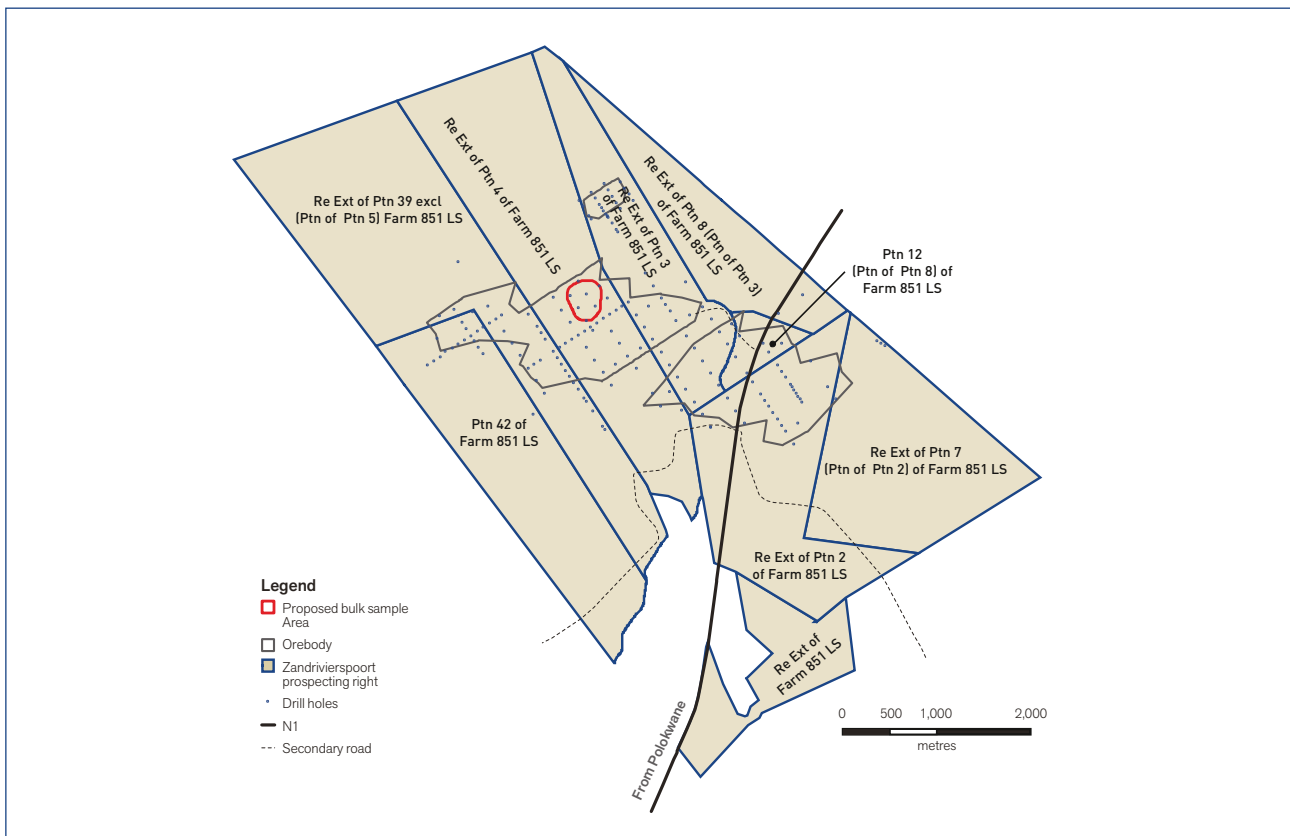
### Zandriverspoort project

The project is currently in the pre-feasibility phase of investigation which is being funded by the Polokwane Iron Ore Company, a 50:50 joint venture between SIOC and AMSA.

It is assumed that a concentrate product from Zandriverspoort could be accommodated as part of the feedstock of AMSA's domestic demand. Investigations have shown that Zandriverspoort concentrate could comprise up to 5% of a sinter mix, which yields improved production rates in the iron ore sintering process. This, however, will only support a limited market and alternatives such as 'green' micro-pellets or baked mini-pellets (both as a sinter ore replacement) or conventional pellets (as a blast furnace feed) are being investigated to increase the domestic demand for Zandriverspoort's product.

The Polokwane Iron Ore Company has decided to start with large scale bulk sampling for a small-scale mining operation to deliver 240,000 tonnes a year at Zandriverspoort in the near future in order to conduct the necessary bulk scale testing of the metallurgical and consequently the steel-making properties of the concentrate.

## ZANDRIVERSPOORT PROSPECTING RIGHT AREA NORTH OF POLOKWANE CITY IN THE LIMPOPO PROVINCE



## ENDORSEMENT

The persons at Kumba who are designated to take 'corporate responsibility' for Mineral Resources and Ore Reserves are Jean Britz and Theunis Otto. They have reviewed the Mineral Resource and Ore Reserve estimates reported for 2011 and consent to the inclusion of these estimates in the form and context in which they appear in this report.

Jean Britz is a professional natural scientist registered with the South African Council for Natural Scientific Professions (400423/04). He has a BSc (Hons) in Geology and an MEng in Mining and has 19 years' experience as a mining and exploration geologist in coal and iron ore, of which seven are specific to iron ore Mineral Resource estimation and evaluation.

Theunis Otto is a mining engineer registered with the Engineering Council of South Africa (990072). He has an MSc in Mining Engineering and has 16 years of experience as a mining engineer in production management and technical roles in coal and iron ore mining, of which seven are specific to iron ore Mineral Reserve estimation and evaluation.

Kumba's chief executive and board member Chris Griffith endorses the Mineral Resource and Ore Reserve estimates presented in this document, and acknowledges that the Kumba Policy which governs Mineral Resource and Ore Reserve reporting has been adhered to.



**Jean Britz**

Principal, Mineral Resources – Kumba Iron Ore Limited geosciences



**Theunis Otto**

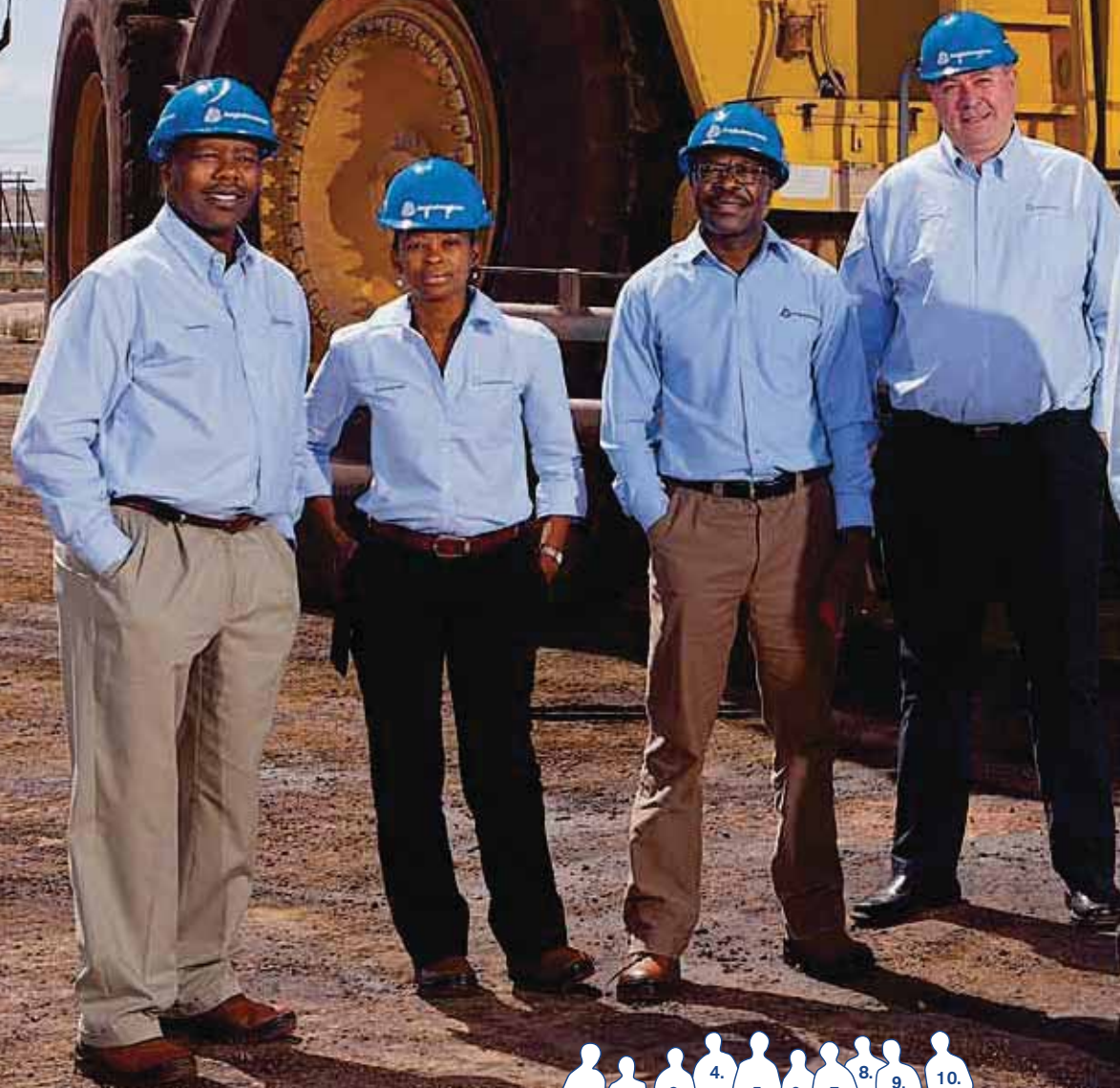
Head, Kumba Iron Ore Limited mining processes



**Chris Griffith**

Chief executive

# LEADERSHIP IN ACTION



**Board of directors:** 1. Peter Matlare, 2. Dolly Mokgatle, 3. Godfrey Gomwe, 4. David Weston, 5. Chris Griffith, 6. Zarina Bassa, 7. Litha Nyhonyha, 8. Vincent Uren, 9. Allen Morgan and 10. Gert Gouws





## BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS

#### CHRIS GRIFFITH (47)

BEng (Mining) (Hons), Pr Eng  
Chief executive

Chris joined the board of Kumba on 1 July 2008 and is the chief executive officer. He was previously the executive head of joint ventures for Anglo American Platinum Limited. Chris serves as a non-executive director on the board of Exxaro Resources Limited and is also a director of Anglo American South Africa Limited. He has over 19 years of mine management experience and was previously general manager of Anglo American Platinum's Amandeubult Platinum mine and Bafokeng Rasimone Platinum mine.

#### VINCENT UREN (50)

BCom, CTA, CA (SA)  
Chief financial officer

Vincent joined the board of Kumba on 7 April 2006 and was the chief financial officer. He has over 22 years' experience in financial roles, many of these gained with the Anglo American plc Group where he was involved in a number of diverse and complex local and international transactions. Vincent stepped down from his position as chief financial officer effective 31 December 2011. He continues to be employed by Kumba, working exclusively on the group's legal issues.

### NON-EXECUTIVE DIRECTORS

#### ALLEN MORGAN (64)

BSc, BEng (Elect), Pr Eng  
Interim chairman, independant non-executive director

Allen joined the board of Kumba on 9 February 2006 and is a member of the Audit, the Risk, the Safety, Sustainable Development, Social and Ethics Committees, and chairs the Human Resources, Remuneration and Nomination Committee. He was appointed interim chairman of Kumba Limited on 15 December 2010. He served as the chief executive of Eskom between 1994 and 2000 and was a non-executive director of Eskom Holdings. He was appointed a non-executive director of AECI Limited on 1 July 2010 and also holds several corporate directorships. Allen was previously the chairman of Kumba Resources Limited.

#### DAVID WESTON (53)

MBA, BSc (Eng)  
Non-executive director

David joined the board of Kumba on 10 February 2010. He is Anglo American plc's Group director of business performance and capital projects. He also serves as a non-executive director of International Power plc, London UK. His previous positions include group technical director of Anglo American plc, CEO of Anglo American Industrial Minerals (The Tarmac Group), president of Shell Canada Products Limited, and chief executive officer of Shell Aviation.

#### DOLLY MOKGATLE (55)

BProc, LLB, HDip Tax Law  
Independent non-executive director

Dolly joined the board of Kumba on 7 April 2006 and is a member of the Audit and Risk Committees, and chairs the Safety, Sustainable Development, Social and Ethics Committee. She is an executive director of the Peotona Group Holdings and also holds several other corporate directorships. She was the chief executive officer of Spoornet and managing director of Transmission at Eskom.

#### GERT GOUWS (53)

BCom (Law), BCom (Hons), CA (SA), FCMA  
Non-executive director

Gert joined the board of Kumba on 9 February 2006 and is a member of the Risk Committee. He is the chief financial officer and alternate director of the Industrial Development Corporation. He is also a director of Pebble Bed Modular Reactor (Pty) Limited and holds several other corporate directorships.

#### GODFREY GOMWE (56)

BAcc, CA (Z), MBL  
Non-executive director

Godfrey joined the board of Kumba on 17 May 2010 and is a member of the Risk Committee. He is an executive director of Anglo American South Africa Limited. He was previously head of group business development, Africa for Anglo American plc and, prior to that, finance director and chief operating officer of Anglo American SA. He is chairman of Anglo American plc Zimele and Tshikululu Social Investments and has served on a number of Anglo American plc operating board and executive committees. Before moving to South Africa in 2003, he was the chairman and chief executive of Anglo American Zimbabwe. He is a past president of the Institute of Chartered Accountants of Zimbabwe and past senior vice president of the Chamber of Mines of Zimbabwe. He has held many directorships in both listed and unlisted companies.

#### LITHA NYHONYHA (53)

BCom, CA (SA)  
Independent non-executive director

Litha joined the board of Kumba on 14 June 2011 and is a member of the Audit Committee. He is the executive chairman of Regiments Capital (Pty) Limited and serves as a non-executive director on the boards of AECI Limited, Sovereign Food Investments Limited and Plessey (Pty) Limited. In 2004, Litha and his partners established Regiments Capital. He is responsible for building and growing Regiment's investment unit, which holds interests in a number of companies in key sectors including engineering, specialised property development and banking.

#### PETER MATLARE (56)

BSc (Hons) (Political Science), Masters (Southern African Studies)  
Independent non-executive director

Peter joined the board of Kumba on 9 February 2006 and is a member of the Safety, Sustainable Development, Social and Ethics, and the Human Resources, Remuneration and Nomination Committees. He is chief executive officer of Tiger Brands. His previous positions include chief strategy and business development director for the Vodacom Group, commercial director of Vodacom South Africa, and chief executive officer of the South African Broadcasting Corporation.

#### ZARINA BASSA (47)

BAcc, CA (SA)  
Independent non-executive director

Zarina joined the board of Kumba on 2 December 2008 and chairs the Audit and Risk Committees. She is the chief executive officer of Zarina Bassa Investments and executive chairman of Songhai Capital. She is chairman of Yebo Yethu Limited and deputy chairman of Woolworths Financial Services. Zarina serves as a non-executive director of Vodacom South Africa, Sun International, Woolworths, Senwes, Oceana, the Lewis Group, National Business Initiative and the Financial Services Board. She was a partner at Ernst & Young where she spent 17 years in the Durban, United Kingdom and Johannesburg offices. She has also previously chaired the Public Accountants' and Auditors' Board and the Auditing Standards Board and has been a member of the Accounting Standards Board, the JSE's GAAP Monitoring Panel, the board of The South African Institute of Chartered Accountants and vice president of the Association for the Advancement of Black Accountants of South Africa.

# EXECUTIVE MANAGEMENT



From left to right: Aart van den Brink, Alex Mgadzah, Andrew Loots, Christo van Loggerenberg, Cornelia Holtzhausen, Francois Louw, Virginia Tyobeka, Vusani Malie and Yvonne Mfola.

## AART VAN DEN BRINK (50)

MEng (Mining)  
General manager: Kolomela mine

Aart was appointed to his current position on 1 March 2008. He was previously the manager mining at Grootgeluk coal mine at Kumba Resources Limited and general manager at Thabazimbi mine. Aart has extensive experience in underground and open-cast mining.

## ALEX MGADZAH (42)

MSc, BSc (Hons), MBA  
Executive head: safety and sustainable development

Alex was appointed to his current position on 1 January 2011. He has more than 15 years' management experience in integrated health, safety, environmental, community and quality management within the mining, smelting, manufacturing and consulting sectors. He was vice president of sustainability and community affairs at BHP Billiton Energy Coal South Africa before joining Kumba.

## ANDREW LOOTS (44)

BEng (Mech), MBA  
General manager: Sishen mine

Andrew was appointed to his current position on 1 June 2008. Before this, he headed Kumba's mega mine project, focused on achieving a step change in safety and production performance at Sishen mine, and has also held several general management positions with Anglo American Thermal Coal.

## CHRISTO VAN LOGGERENBERG (54)

BEng (Hons) (Metallurgy), MBA  
Executive head: technical services

Christo was appointed to his current position on 1 December 2006. Prior to this, he was the former business development manager for Kumba Resources Limited's iron ore business. Other senior posts include various metallurgy, engineering and operational positions in the industry.

## CORNELIA HOLTZHAUSEN (39)

BSc (Metallurgical Eng), MBA, Pr Eng  
General manager: Thabazimbi mine

Cornelia was appointed to her current position on 1 December 2010. She has held management positions in process development, asset optimisation and projects, ore beneficiation and continuous improvement.

## FRANCOIS LOUW (51)

BEng (Mech), MBA  
Executive head: projects

Francois was appointed to his current position on 1 December 2006. Prior to this, he was the project director of the former Kumba Resources Limited's Northern Cape iron ore interests. He has experience in various operational and engineering roles in the mining industry, with particular expertise in strategic projects.

## VIRGINIA TYOBKA (46)

BAdmin (Hons), MAP  
Executive head: human resources

Virginia was appointed to her current position on 4 January 2010. She was previously the human resources director at Afrisam South Africa Limited. Virginia has extensive experience in human resources in the manufacturing and mining industries.

## VUSANI MALIE (38)

BA (Law), LLB  
Company secretary

Vusani was appointed to his current position on 2 May 2007. He is an admitted attorney, and was previously the corporate services manager for AVI Limited and group company secretary for Santam Limited.

## YVONNE MFOLO (44)

BA (Communications), Advanced Certificate (Journalism)  
Executive head: public affairs

Yvonne joined Kumba on 1 August 2011 from Anglo American Thermal Coal where she was head of public affairs. Prior to this she was the chief director of communications at the then Department of Minerals and Energy (DME), now the DMR, and spokesperson for the Minister. She spent nine years with the DME.

# COMPLIANCE AND CONTROLS

## OUR COMMITMENT AND APPROACH

The board of directors of Kumba is committed to the highest standards of corporate governance enshrined in the King Report on Governance for South Africa 2009 and the King Code of Governance Principles for South Africa 2009 (King III), the Companies Act 71 of 2008, as amended (The Companies Act), and the JSE Limited Listings Requirements (Listings Requirements).

It is the board's role to provide the leadership necessary to promote the application of the principles of good corporate governance throughout the group. The year under review saw the continuation of the implementation of the recommendations of King III, the Companies Act and the amendments to the Listings Requirements with significant progress.

### King III compliance

The board in its 2010 report indicated that it was in the process of reviewing the recommendations of King III and implementing applicable principles. During the year under review, PricewaterhouseCoopers was engaged to perform an overall assessment of Kumba's application of the applicable principles and recommended practices contained in King III. Results of the assessment were presented to the board at its corporate governance workshop held on 5 October 2011. The board is satisfied that the company complies materially with King III. Areas of non-application with applicable principles and recommended practices contained in King III are as follows:

- The position of the interim chairman who is a member of the Audit Committee. A full explanation is provided under the heading 'Lead independent director and interim chairman' on page 91.
- The Human Resources, Remuneration and Nomination committee considered the recommendation for non-executive directors' fees to comprise a base fee as well as an attendance fee and did not recommend it to the board because it believed that it is not necessary to implement an attendance fee as the directors consistently attend meetings and in cases where attendance is not possible, they contribute to matters to be considered at meetings.

### The Companies Act

The Companies Act came into effect in May 2011 and the company was required to review certain practices and request shareholder approvals to comply with the Act's immediate provisions. The following are the actions undertaken in 2011 to comply with the immediate provisions:

#### 1. Financial assistance

On 2 November 2011, the company convened a general meeting of shareholders where a special resolution permitting the company to provide direct or indirect financial assistance to entities within the Kumba group was approved.

#### 2. Prescribed officers

The board at its meeting held on 17 November 2011 resolved to designate members of the Kumba Executive Committee

as prescribed officers of the company. These individuals (see page 87 for brief profiles) were deemed to exercise or regularly participate in the executive control of the company as contemplated in the Companies Act and its regulations.

## 3. Social and Ethics Committee

The board agreed at its corporate governance workshop held on 5 October 2011 to expand the mandate and responsibilities of the Safety and Sustainable Development committee (SD committee) to include the Social and Ethics committee in order to comply with the requirements of the Companies Act. Following review, the SD Committee adopted its new name, Safety, Sustainable Development, Social and Ethics committee (SSDS&E committee), and terms of reference in February 2012 to comply with the requirements of the Companies Act. The responsibilities and membership of the SSDS&E committee are set out in its report on page 97.

## Listings Requirements

The company is fully compliant with the Listings Requirements, as amended, and the annual compliance certificate for the year under review has been submitted to the JSE.

## KUMBA GOVERNANCE STRUCTURE

The Kumba governance process is regulated by applicable corporate governance principles, legislation and the Kumba Delegated Authority Framework (DAF). Kumba's operating entity, SIOC, in which Kumba has a majority shareholding, has in place a fully operational board of directors consisting of executive and non-executive directors. The non-executive directors are drawn from SIOC's minority shareholders, namely: Exxaro (19.98%); SIOC-CDT (3%); and Envision (3.1%). The DAF regulates the authority limits and relationship between the Kumba and SIOC boards to ensure that decisions pertaining to either of the companies are taken by the correct board. Accordingly, SIOC directors retain unfettered discretion with respect to SIOC matters and in appropriate circumstances, SIOC shareholders, of which Kumba is the majority, make recommendations which are taken into account by the SIOC board. Kumba and Anglo American plc are currently developing a governance framework in accordance with the King III principle recommending alignment between a holding company and its subsidiaries regarding governance. Progress will be reported in the 2012 integrated report.

## THE BOARD

### Role of the board

The board is responsible for leading the company's ethical performance and remains accountable for governance processes to ensure that the legitimate interests of all stakeholders are taken into account to ensure the sustainability of the company. The board provides strategic direction to the company identifying key risks

## KUMBA GOVERNANCE STRUCTURE



and key performance areas to ensure sustainable performance. The board ensures that no one person or a block of persons has unfettered power and there is and remains an appropriate balance of power and authority on the board.

### Board charter

The Kumba board charter deals with the following:

- regulates the parameters within which the board operates
- sets out specific responsibilities to be discharged by the board members
- requires directors to adhere to the provisions of the Memorandum of Incorporation
- board governance and key issues which the board considers in the course of its direction of the company including the following matters which are specifically reserved for the board:
  - reviewing the strategic direction of the company and adopting business plans proposed to achieve the company's objectives.
  - approving specific financial objectives, including budgets, and non-financial objectives and policies proposed by management.
  - overseeing the company's performance against agreed targets and objectives.

- reviewing the process for management of business risk and ensure there is an effective risk-based internal audit.
- reviewing processes for ensuring compliance by the company with its key legal obligations.
- reviewing the compliance framework and processes to ensure the company complies with the relevant laws, regulations and codes of best business practice.
- delegating appropriate authority to the chief executive for capital expenditure and reviewing investment, capital and funding proposals reserved for board approval in terms of the delegation policy set out in its charter.
- appointing the chief executive and executive and non-executive directors on recommendation from the Human Resources, Remuneration and Nominations Committee.
- approving succession planning for key positions within the company.
- determining policies and processes to ensure the integrity of the management of the internal controls, risks, ethics, corporate citizenship, regulatory, legal compliance and IT governance.
- ensuring the integrity of financial reporting and the full and timely disclosure of material matters concerning the company.

### Board composition

Kumba has a unitary board which is led by an independent non-executive chairman. The board consists of two executive directors and eight non-executive directors, five of whom are independent, as outlined below:

Director	Designation	Appointment date
Allen Morgan	Interim chairman (independent non-executive)	09 February 2006
Zarina Bassa	Independent non-executive	02 December 2008
Godfrey Gomwe <sup>1</sup>	Non-executive	17 May 2010
Gert Gouws	Non-executive	09 February 2006
Chris Griffith	Executive (chief executive)	01 July 2008
Peter Matlare	Independent non-executive	09 February 2006
Dolly Mokgatle	Independent non-executive	07 April 2006
Litha Nyhonyha	Independent non-executive	14 June 2011
Vincent Uren*	Executive (chief financial officer)	07 April 2006
David Weston <sup>2</sup>	Non-executive	10 February 2010

<sup>1</sup> Zimbabwean

<sup>2</sup> British

\* resigned effective 31 December 2011

Biographical details of each director are provided on page 86.

## CORPORATE GOVERNANCE AND COMPLIANCE

### Board and committee meeting attendance during the year

The board met four times for normal business and twice for special business during the year under review. Prior to the commencement of every scheduled board meeting, the non-executive directors hold a session without the executive directors to consider the performance and actions of executive management. The board also held a strategy session, as well as risk and corporate governance workshops during the year. The following tables outline attendance to board and committee meetings held during the year:

Director	Scheduled board meetings				Special board meetings		Risk workshop	Strategy session	Corporate governance workshop
	09 Feb	19 May	20 Jul	17 Nov	11 May	28 Nov	15 Feb	26-27 May	5 Oct
ZBM Bassa	✓	✓	✓	✓	✓	*	✓	✓	✓
GG Gomwe	✓	✓	✓	✓	✓	✓	*	✓	✓
GS Gouws	✓	✓	✓	✓	✓	✓	*	✓	✓
CI Griffith	✓	✓	✓	✓	✓	✓	✓	✓	✓
PB Matlare	✓	✓	✓	✓	✓	*	*	*	✓
DD Mokgatle	✓	✓	✓	✓	✓	✓	✓	✓	✓
AJ Morgan	✓	✓	✓	✓	✓	✓	✓	✓	✓
LM Nyhonyha	n/a	n/a	✓	✓	n/a	✓	n/a	n/a	✓
VP Uren	✓	*	✓	✓	*	✓	✓	*	✓
DM Weston	✓	✓	✓	✓	✓	*	*	✓	✓

✓ indicates attendance

\* indicates absence with an apology

Member	Audit Committee					Risk Committee		SSDS&E Committee			Remco		
	7 Feb	15 Mar	11 May	15 Jul	9 Nov	11 May	9 Nov	3 Feb	10 May	03 Nov	3 Feb	10 May	03 Nov
ZBM Bassa	✓	✓	✓	✓	✓	✓	✓						
GG Gomwe						*	✓						
GS Gouws						✓	✓						
PB Matlare								✓	✓	✓	✓	✓	✓
DD Mokgatle	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓			
AJ Morgan	✓	*	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
LM Nyhonyha				✓	✓								

✓ indicates attendance

\* indicates absence with an apology

### Changes to the board during the year

During the year under review, Litha Nyhonyha was appointed as a non-executive director on 14 June 2011. Vincent Uren resigned as executive director and chief financial officer on 31 December 2011 after an illustrious career spanning over 20 years with the Anglo American plc Group. The board accepted with regret his resignation and acknowledges his immeasurable contribution to the board and the company as a whole.

### Key focus areas for the board in 2011

The board devoted a considerable amount of time to dealing with various legal issues in which the company is involved. The non-executive directors were called upon to provide guidance and leadership in the various processes and engagements to ensure that stakeholder value was protected. The board held a risk workshop in which key headline risks were identified to be included in the company's risk map and monitored. The board also held a governance workshop in which the company's progress on the implementation of the provisions of The Companies Act and the recommendations of King III was assessed and monitored.

## Responsibilities of chairman and chief executive officer

A clear separation is maintained between the responsibilities of the chairman and the chief executive officer. This is documented in the board charter. The chairman is responsible for leadership of the board and ensuring the integrity and overall effectiveness of the board and its committees. The chief executive officer's responsibility is to focus on the operation of the business, ensuring it is run efficiently and effectively in accordance with the strategy that is approved by the board.

## Lead independent director and interim chairman

Allen Morgan was appointed as interim chairman of the board on 14 December 2010 pending the final decision by the board on the appointment of a permanent chairman. The board took a decision that, in the interests of continuity, Allen would continue as interim chairman of the board until the conclusion of the various legal issues that the company is involved in. The board then considered the implications of its decision on Allen's membership of the Audit Committee of the board in light of the King III recommendation under principle 3.2 that the chairman of the board may not be eligible to participate in the Audit Committee as a member. The board took a decision that Allen continues as a member of the Audit Committee because his chairmanship is temporary and his permanent position is that of lead independent director. The composition of the Audit Committee is balanced and the board is satisfied that Allen remains objective as interim chairman of the board and as a member of the Audit Committee. In addition to Allen, the Audit Committee comprises three other independent non-executive directors.

## Appointments to the board

The board of directors has the power to appoint directors. In terms of the board charter, appointments to the board are made on the recommendation of the Human resources, Remuneration and Nomination Committee. The procedures for appointing directors to the board are formal and transparent and the appointments are subject to confirmation by the shareholders at the AGM.

## Rotation of directors

Directors are subject to rotation in accordance with the Memorandum of Incorporation of the company. At least one third of directors in office retire and offer themselves up for re-election at every AGM. Gert Gouws and David Weston will retire by rotation at the AGM to be held on 4 May 2012. Directors appointed by the board after the AGM retire at the next AGM following their appointment. Litha Nyhonyha will retire and offer himself for re-election at the AGM to be held on 4 May 2012.

## Director induction

All appointed directors attend both formal and informal induction related to the company and their duties as directors.

The company secretary conducts a specifically tailored board induction process with newly-appointed directors. The induction process covers, as a minimum, the following areas:

- an overview of the operations
- one-on-one discussions with executive and operational management
- site visits to all operations and logistics facilities
- corporate governance training
- statutory and common law obligations of directors (The Companies Act)
- full briefing by the company's sponsor on directors' continuing obligations in terms of the JSE Listings Requirements

The company secretary provides directors with updates on legislative developments. Non-executive directors can, where necessary, obtain independent professional advice at the expense of the company. The key focus area for 2011 was to ensure that directors were informed of the changes in the governance landscape. A corporate governance workshop was held on 5 October 2011 in which the directors were informed of The Companies Act, latest amendments to the JSE Listings Requirements and King III. In this session, directors were also updated on progress on implementation plans as well as key risk areas.

## Board and committee performance evaluation

An evaluation of the board and its committees was conducted by external service providers in 2011 and beginning of 2012. The process involved one-on-one interviews with individual directors on a broad range of issues relating to board performance and a number of recommendations were suggested. The key objective was to evaluate board perception on improvement in the following areas:

- director peer review
- board effectiveness
- board performance against objectives
- board composition and independence
- director development
- succession planning
- board committee performance
- performance of the chairman

The chairman and the company secretary are responsible for preparing a report to the board on the results of the assessment and to develop a work plan for the ensuing year.

## CORPORATE GOVERNANCE AND COMPLIANCE

### Mechanisms for shareholder communication with the board

The formal mechanisms in place for communication with shareholders include one-on-one meetings with investors, presentations, AGM, press announcements of the interim and year-end results, the company's website, its annual report to shareholders and the proxy form shareholders use to exercise their voting rights.

### Company secretary

The company secretary ensures that all directors have full and timely access to all information that may be relevant to the proper discharge of their duties and obligations. This includes information such as agenda items for board meetings, corporate announcements, investor communications and any other developments, which may affect Kumba or its operations. The company secretary arranges board site visits and facilitates the procurement of independent advice from external legal and financial advisors on key strategic issues. The directors have direct access to the company secretary who provides guidance and assistance in line with the requirements outlined in King III and the JSE Listings Requirements. It is the responsibility of the company secretary to provide the board as a whole, and directors individually, with guidance as to how their responsibilities should be properly discharged in the best interests of the group.

The company secretary is also responsible for ensuring that the proceedings and affairs of the directorate, the company itself and, where appropriate, owners of securities in the company are properly administered in accordance with the relevant laws.

### Conflicts of interest

Kumba has a conflict of interest policy in place which is designed to assist directors in identifying situations that could present potential conflicts of interest and to provide a procedure, such as recusal, which can be followed in the case of a conflict of interest. The policy is intended to comply with the procedures prescribed in The Companies Act as well as the JSE Listings Requirements. A comprehensive register of directors' interests is maintained and updated and signed by each director individually. The directors are called upon to apply their minds to situations where a perception of conflict could arise and appropriate action is recommended.

### Dealing in securities

In accordance with the JSE Listings Requirements, the group has adopted a code of conduct for dealing in the company's securities. During a closed period, as defined in the JSE Listings Requirements, directors and designated employees are prohibited from dealing in the company's securities.

### The Executive Committee

The Executive Committee is chaired by the chief executive and consists of the executive directors, executive function heads, the mine general managers and the company secretary. It is responsible for implementing the strategies and policies determined by the board, managing the business and affairs of the company, prioritising the allocation of capital, technical and human resources and establishing best management practices. The Executive Committee is also responsible for senior management appointments and monitoring their performance.

## BOARD COMMITTEES

The board has established four standing committees through which it executes its duties. The committees are the Audit Committee, Risk Committee, Safety, Sustainable Development, Social and Ethics Committee and, Human Resources, Remuneration and Nomination Committee. The terms of reference and composition of the committees are determined and approved by the board. The board renewed the terms of reference of the Audit Committee to ensure that it is in line with the provisions of The Companies Act and the King III Report. Further revision of the terms of reference of the Safety and Sustainable Development Committee and the Human Resources, Remuneration and Nomination Committee were considered and approved in 2011 to ensure compliance with the King III Report guidelines on remuneration practices and the regulations to The Companies Act with respect to the Social and Ethics Committee. The respective chairmen of the committees report back to the board on the deliberations of the committees and the minutes of the committee meetings are included in board meeting papers. Reports of the board committees are included on the following pages of this report, with the exception of the Audit Committee report, which is included on page 17 of the Annual Financial Statements 2011.

# REPORT OF THE RISK COMMITTEE

The Risk Committee was established to assist the board with its responsibilities for the governance of risk. The committee's broad mandate is the monitoring, development, assessment and communication of the processes for identifying and managing risks across the group.

The committee has terms of reference in place and its mandate includes:

- overseeing the development and annual review of a policy and plan for risk management
- reviewing and assessing the effectiveness of the integrated risk management system including the group's risk philosophy
- ensuring that combined assurance model on risk is appropriate and that assurance received is adequate
- ensuring periodic risk assessments are carried out
- ensuring the combined assurance model is reflective of all assurance activities and is sufficient and appropriate in managing and mitigating key risks and overall risks in the context of the risk appetite and tolerance levels set by the board.

## COMPOSITION

The committee is constituted of three members of the Audit Committee and two additional non-executive directors. The committee comprises the following members: ZBM Bassa (chairman), GG Gomwe, GS Gouws, DD Mokgatle and AJ Morgan.

## COMMITTEE MEETINGS

The committee met twice during the period under review and attendance is reflected on page 90. In addition, the committee facilitated the board risk workshop in which the board identified headline risks to be mitigated and managed. The committee will convene further risk workshops in 2012 to assist the board in reviewing the group strategy and determining the risks attendant to the strategy and to set the group's risk appetite. In addition to the committee members, the chief executive, chief financial officer, head of internal audit and the risk managers attend meetings of the committee.

# REPORT OF THE HUMAN RESOURCES, REMUNERATION AND NOMINATION COMMITTEE

The Human Resources, Remuneration and Nomination Committee (Remco) is responsible for making recommendations to the board on the appointment, remuneration policies and practices of the chief executive, Executive Committee members and senior management. The committee makes recommendations to the board on the composition of the board and board committees and ensures that the board comprises of suitably qualified individuals. It consults other directors in its evaluation of the chairman of the board, the chief executive and individual directors.

The committee has terms of reference in place and its mandate includes:

- ensuring alignment of the remuneration and human resource practices with the group's business strategy;
- determining the group's remuneration and benefits policy;
- monitoring the succession plan for the board and senior management;
- regularly reviewing board composition and diversity;
- nominating candidates for appointment to the board as and when vacancies arise;
- recommending adjustments to non-executive directors remuneration to the board for approval by the shareholders; and
- reviewing the performance of the board and its committees and senior management.

## COMPOSITION

The committee comprises the following independent non-executive directors: AJ Morgan (chairman) and PB Matlare.

## COMMITTEE MEETINGS

The committee met three times during the period under review and attendance is reflected on page 90. In addition to the committee members, the chief executive and the executive head of human resources attend meetings of the committee.

# REVIEWING AND REWARDING PERFORMANCE

## KUMBA'S REMUNERATION PHILOSOPHY

Kumba's remuneration practices are based on the following tenets:

- motivating and reinforcing the positive performance of individuals;
- attracting and retaining talent;
- aiming to be a preferred employer in the market place; and
- applying its remuneration policies equitably, fairly and consistently.

The Human Resources, Remuneration and Nomination Committee of the Board of Directors (Remco) has the task of applying principles of accountability and transparency to remuneration matters, so that the remuneration of directors and executive management is linked to performance and supports the group's strategy, with the ultimate aim of creating value for shareholders.

During the year the Remco focused specifically on:

- the appropriateness of reward programmes;
- aligning Kumba's remuneration philosophy and policies with the principles and recommended practices of King III;
- successfully executing the unwinding of Envision, the SIOC Employee Share Participation Scheme, the first phase of which matured on 17 November 2011;
- the implementation of the second phase of Envision, which will mature in 2016; and
- approving and appointing the prescribed officers.

## DIRECTORS' FEES AND REMUNERATION

The directors are appointed by the Kumba Board based on their competence, ability and appropriate experience to contribute to achieving the company's objectives as a leading value-adding iron ore supplier to the global steel industry.

### Executive directors

The remuneration of executive directors of Kumba consists of two components: a fixed and a variable component of an annual executive performance incentive and long-term incentives in terms of Kumba's Bonus Share Plan and a Long-Term Incentive Plan.

### Fixed remuneration

The fixed salaries of executive directors are reviewed every year in January. In addition to a basic cash salary, executive directors receive benefits that include contributions towards medical scheme membership, vehicle benefits, vehicle insurance and security services. Retirement and risk benefits, including life cover and death-in-service benefits are provided in terms of the rules of the Kumba Selector Pension and Provident Funds. The employer's retirement contribution is 9.5% of cost to company. The assumption is that executive directors will retire at the age of 60 years.

Overview of the group's remuneration structure for executive directors and executive management:

Element	Fixed/variable	Objective	Delivery
Salary	Fixed	Reflects scope and nature of role, performance and experience	Cash
Non-monetary benefits (medical health care, vehicle allowance etc.)	Fixed	Provision of non-monetary items	Benefits in kind
Pension	Fixed	Provision of retirement benefits	Contribution to pension and provident funds
Short-term incentives	Variable	Rewards and motivates achievement of agreed group and individual performance objectives	Cash of up to a maximum of 60% of basic employment cost (BEC) for achievement of maximum targets
Long-term incentives	Variable	Alignment with shareholder interests and creation of long-term value	Shares

The basic salaries payable to the executive directors for the 2010 and 2011 financial year and proposed 2012 basic salaries are set out in the table below:

R000	Basic salary 2012	Basic salary 2011	Basic salary 2010
CI Griffith	4,616	4,269	3,953
VP Uren	–	3,504	3,197

## Annual performance incentives

In addition to fixed remuneration, each executive director participates in an executive performance incentive scheme, the Bonus Share Plan (the BSP). Performance of the group is assessed on various financial, business and strategic performance criteria and metrics, targeting earnings before interest and tax (EBIT) and return on capital employed (ROCE). For executive directors' cash awards, 50% will reflect the extent to which the company achieved its financial targets in 2011, with the balance of the cash awards reflecting the extent to which certain personal strategic and other performance objectives were achieved. Maximum earnings potential is set at 60% of annual BEC.

In 2011 the CEO's performance targets were as follows: Kumba EBIT – 50%; Safety – 10%; Production and sales – 20%; Anglo American plc EPS – 10%; strategic initiatives and projects – 10%.

In 2011 the CFO's performance targets were as follows: Kumba financial targets – 50%; safety targets – 10%; strategy execution, asset optimisation and strategic projects – 40%.

## Executive directors' service contracts

Executive directors are not employed on fixed-term contracts and have standard employment service agreements with notice periods of up to 12 months. Mr VP Uren resigned from his role as chief financial officer on 31 December 2011. Mr F Kotzee has been

appointed as chief financial officer, effective 1 June 2012. The recruitment process was conducted by an extended nominations group and the appointment was made by the Kumba board.

## Long-term incentive plans

Executive directors and executive management participate in one or more of the long-term incentive schemes described below as proposed by the Remco and approved by the board:

- the Bonus Share Plan;
- the Long-Term Incentive Plan;
- the Share Appreciation Rights Scheme (no new grants will be made);
- the Deferred Bonus Plan (no new grants will be made); and
- old scheme – those transferred to Kumba post unbundling;
- Kumba Management Share Incentive Scheme (no grants awarded since unbundling)

## Non-executive directors' fees

The Remco recommends fees payable to the non-executive directors for approval by the shareholders. The adjustment fees for non-executive directors will be submitted to the shareholders for approval at the next AGM in May 2012. These fees are not dependent upon attendance of meetings. No other supplementary fees are payable. Non-executive directors do not participate in any of the company's incentive schemes.

Executive directors' remuneration for the year was as follows:

R000	Basic salary	Short-term incentive	Retirement funding and medical aid	Other benefits	Total 2011	Total 2010
Cl Griffith <sup>3</sup>	4,269	2,044	543	864	7,720	6,495
VP Uren <sup>3</sup>	3,504	1,618	446	661	6,229	5,255
<b>Total</b>	<b>7,773</b>	<b>3,662</b>	<b>989</b>	<b>1,525</b>	<b>13,949</b>	<b>11,750</b>

The table below sets out the short-term incentives paid during 2011.

	2010 Total fixed remuneration R000	2010 BEC used for calculating incentive R000	2011 Annual incentive paid R000	Annual incentive as a percentage of 2010 total fixed remuneration %
Cl Griffith	4,195	3,953	2,044	49% (52% of BEC)
VP Uren	3,527	3,197	1,618	46% (51% of BEC)

## REMUNERATION REPORT – A SUMMARY

### 2011 emoluments

The table below provides an analysis of the emoluments paid to executive and non-executive directors, as well as prescribed officers. The table also provides an analysis of the emoluments paid to executive and non-executive directors, as well as the top-earning managers of the company in 2011. The 2010 total emoluments have not been restated to include the fair value of long-term incentives awarded during that year.

Names (ZAR 000)	Base Benefits (retirement and medical aid)	Benefits (retirement and medical aid)	Incentives based on 2010 performance paid in 2011	Directors' fees	Additional Directors' fees <sup>8</sup>	Committee fees	Fair value of long-term incentive awards <sup>7</sup>	Total emoluments	
								2011	2010
<b>Executive directors</b>								<b>25,394</b>	11,750
CI Griffith	4,269	543	2,044				7,073	13,929	6,495
VP Uren	3,504	446	1,618				5,897	11,465	5,255
<b>Non-executive directors</b>								<b>3,918</b>	3,416
ZBM Bassa <sup>1,2</sup>				177	75	356		608	496
GS Gouws <sup>1,2</sup>				177	90	79		346	165
GG Gomwe <sup>2,5</sup>				177	60	79		316	124
DD Mokgatle <sup>1,2,4</sup>				177	105	353		635	491
DM Weston <sup>6</sup>				177	75	–		252	165
AJ Morgan <sup>1,2,3,4</sup>				1,100	105	–		1,205	564
PB Matlare <sup>1,3,4</sup>				177	75	157		409	311
LM Nyhonyha <sup>1,2</sup> (appointed 14 June 2011)				89	–	58		147	
PL Zim				–	–	–	–	–	1,100
<b>Prescribed officers (including top three earners)</b>								<b>44,246</b>	27,680
M Schottler <sup>11</sup>	2,161	250	1,006				1,988	5,405	
RJ Botha <sup>11</sup>	2,129	243	920				1,852	5,144	
C Van Loggerenberg <sup>10</sup>	2,037	237	873				2,343	5,490	
FM Louw <sup>10</sup>	2,007	234	879				2,337	5,457	
AC Loots <sup>10</sup>	1,994	233	888				1,774	4,889	
SV Tyobeka <sup>10</sup>	1,751	207	742				1,502	4,202	
A Van Den Brink <sup>10</sup>	1,724	204	748				1,505	4,181	
LLA Mgadzah <sup>9,10</sup>	1,520	183	–				–	1,703	
CC Holtzhausen <sup>10</sup>	1,487	160	682				1,360	3,689	
VF Malie <sup>10</sup>	1,425	167	567				1,167	3,326	
Y Mfolo <sup>10</sup> (appointed 1 August 2011)	678	82	–				–	760	
<b>Total</b>	<b>26,686</b>	<b>3,189</b>	<b>10,967</b>	<b>2,251</b>	<b>585</b>	<b>1,082</b>	<b>28,798</b>	<b>73,558</b>	<b>42,846</b>

Base salary includes cash and travel allowance

Benefits include Kumba Retirement Fund and medical contributions

<sup>1</sup> Audit Committee member

<sup>2</sup> Risk Committee member

<sup>3</sup> Human Resources, Remuneration and Nomination Committee member

<sup>4</sup> Safety, Sustainable Development, Social and Ethics Committee member

<sup>5</sup> Directors' fees ceded to Anglo Operations Limited (AOL), a wholly owned subsidiary of Anglo American plc.

<sup>6</sup> Directors' fees ceded to Anglo American Services (UK) Limited, a wholly owned subsidiary of Anglo American plc.

<sup>7</sup> This relates to the fair value of grants made during the year in terms of the BSP and the LTIP share schemes. The LTIP is subject to stringent performance conditions. The LTIP awards to the extent of achievement of the performance conditions will vest in 2014. Bonus shares are included at 100% of face value and the LTIP awards (only for CEO and CFO) at 83.6% of face value, at a volume-weighted average share price of R502.36 as at 31 December 2011.

<sup>8</sup> Additional Directors' board meeting fees paid in 2011 in respect of once-off additional board meetings held in 2010.

<sup>9</sup> LLA Mgadzah was appointed 1 January 2011.

<sup>10</sup> Executive committee member

<sup>11</sup> Mr M Schottler is employed in the position Legal Counsel Litigation and Mr RJ Botha is the Head of Legal.

# MANAGING SUSTAINABILITY

## INTRODUCTION

The Safety, Sustainable Development, Social and Ethics Committee is responsible for developing policies and guidelines to manage sustainable development, safety, health and environmental matters.

The committee has terms of reference in place and its mandate includes:

- reviewing the policies and performance of the company with respect to safety and sustainable development;
- reviewing periodic reports detailing the company's performance against legislative requirements and group standards; and
- ensuring meaningful stakeholder engagement and consultation on safety, environmental and social development issues.

## COMPOSITION

The committee comprises the following independent non-executive directors:

- DD Mokgatle (chairman)
- PB Matlare
- AJ Morgan

## COMMITTEE MEETINGS

The committee met three times during the period under review and attendance is reflected on page 90. In addition to the committee members, the chief executive, the executive head of safety and sustainable development, the executive head of public affairs and the executive head of human resources attend meetings of the committee.

The Kumba Sustainable Development Report 2011 contains further information on the activities of the company over which the committee has oversight.

## SOCIAL AND ETHICS COMMITTEE

The Companies Act requires listed companies to appoint a Social and Ethics Committee. The purpose of this statutory committee is to report to shareholders on the performance of the company on a variety of social aspects of the company's corporate citizenship and ethics. The board, at its governance workshop held on 5 October 2011, approved a recommendation to amend the terms of reference of the Safety and Sustainable Development Committee to incorporate the requirements of the Act in this connection. The process to review the terms of reference of the Safety and Sustainable Development Committee commenced in November 2011 and the committee adopted its new name and terms of reference in February 2012 in accordance with The Companies Act.

# DIRECTORS' APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements of Kumba Iron Ore Limited, which are the responsibility of the directors, and which are disclosed in the annual financial statements for the year ended 31 December 2011, an extract of which is included on page 22 of this report, were approved by the Kumba board of directors on 7 February 2012 and are subject to the approval by the shareholders at the AGM on 4 May 2012.

The financial statements have been prepared under the supervision of Martin Poggiolini, CA(SA), acting chief financial officer.

Refer to page 10 of the Annual Financial Statements 2011 for a full statement of the directors' responsibilities.

The group annual financial statements 2011 are signed on the directors' behalf by:



**AJ Morgan**  
Interim chairman



**CI Griffith**  
Chief executive

14 March 2012

# SUMMARISED INDEPENDENT AUDITOR'S REPORT

## TO THE SHAREHOLDERS OF KUMBA IRON ORE LIMITED

### REPORT OF THE INDEPENDENT AUDITOR ON THE CONDENSED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF KUMBA IRON ORE LIMITED

The accompanying condensed financial statements set out on page 22 which comprise the condensed consolidated balance sheet as at 31 December 2011, the condensed consolidated income statement and condensed consolidated statement of cash flows for the year then ended are derived from the audited financial statements of Kumba Iron Ore Limited for the year ended 31 December 2011. We expressed an unmodified audit opinion on those financial statements in our report dated 7 February 2012. Those financial statements, and the condensed financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The condensed financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the condensed financial statements, therefore, is not a substitute for reading the audited financial statements of Kumba Iron Ore Limited.

### DIRECTORS' RESPONSIBILITY FOR THE CONDENSED FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

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

### OPINION

In our opinion, the condensed financial statements derived from the audited financial statements of Kumba Iron Ore Limited for the year ended 31 December 2011 are consistent, in all material respects, with those financial statements, in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the AC 500 standards as issued by the Accounting Practices Board and the requirements of the Companies Act of South Africa.



**Deloitte & Touche**  
Registered Auditors

**Per G Krog**  
Partner

14 March 2012

# INDEPENDENT ASSURANCE REPORT

## TO THE DIRECTORS OF KUMBA IRON ORE LIMITED

### INTRODUCTION

We have been engaged by the Directors of Kumba Iron Ore Limited (Kumba) to conduct an assurance engagement in accordance with the International Standards for Assurance Engagements 3000, "Assurance Engagements other than audits or reviews of historical financial information" (ISAE 3000), issued by the International Auditing and Assurance Standards Board, on selected Identified Sustainability Information reported in Kumba's 2011 Integrated Report (the Report), for the purposes of expressing a statement of independent assurance, for the year ended 31 December 2011.

### SCOPE AND SUBJECT MATTER

The subject matter of our engagement and related levels of assurance we are required to provide is as follows:

### REASONABLE ASSURANCE

The following Identified Sustainability Information was selected for an expression of reasonable assurance:

- Total CO<sub>2</sub> emissions from processes and fossil fuels in tonnes (page 25)
- Total CO<sub>2</sub> emissions from electricity purchased in tonnes (page 25)
- Total energy use in GJ (page 25)
- Lost-time injury frequency rate (LTIFR) (page 25)
- Total number of new cases of occupational diseases (page 25)
- Total number of new cases of noise-induced hearing loss (NIHL) (page 25)

### LIMITED ASSURANCE

The following Identified Sustainability Information was selected for an expression of limited assurance:

- Total amount of water used for primary activities in m<sup>3</sup> (page 25)
- Number of employees participating in anti-retroviral treatment (ART) (page 25)
- Percentage enrolment of estimated HIV cases in disease management programmes (page 25)
- Total amount spent on social and community development projects (page 25)

- Selected Mining Charter Scorecard indicator:
  - Employment equity (page 25)

The self declaration of the Global Reporting Initiative (GRI) application level (page 1)

Our responsibilities do not extend to any other information.

### RESPONSIBILITIES OF THE DIRECTORS

Kumba's Directors are responsible for the preparation and presentation of the Identified Sustainability Information, as incorporated in the Report, in accordance with their internally defined procedures and for maintaining adequate records and internal controls that are designed to support the reporting process.

### RESPONSIBILITY OF THE INDEPENDENT ASSURANCE PROVIDER

Our responsibility is to express a conclusion to the Directors, on the selected Identified Sustainability Information contained in the Report for the year ended 31 December 2011, based on our assurance engagement. We consent to the inclusion of this report in the Report to assist Kumba's members in assessing whether the Directors have discharged their responsibilities by commissioning an independent assurance report from an appropriately qualified organisation in connection with the selected subject matter.

### SUMMARY OF WORK PERFORMED

We conducted our engagement in accordance with the International Standards for Assurance Engagements 3000, "Assurance Engagements other than audits or reviews of historical financial information" (ISAE 3000), issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain either reasonable or limited assurance on the selected Identified Sustainability Information as per our terms of engagement.

Kumba's internal corporate reporting policies and procedures and the Global Reporting Initiative's (GRI) G3 guidelines were applied as criteria for evaluating the Identified Sustainability Information.

Definitions for the Identified Sustainability Information applied are those determined by Kumba and provided in the glossary (page 103).

Our procedures included examination, on a test basis, of evidence relevant to the selected Identified Sustainability Information. The procedures selected depend on the assurance provider's judgement, including the assessment of the risks of material non-compliance of the selected Identified Sustainability Information with the defined reporting criteria.

Our work consisted of:

- a) reviewing processes that Kumba has in place for determining material Identified Sustainability Information to be included in the Report;
- b) obtaining an understanding of the systems used to generate, aggregate and report data at the sampled operations;
- c) conducting interviews with management at the sampled operations and at Head Office;
- d) applying the assurance criteria in evaluating the data generation and reporting processes;
- e) performing a controls walkthrough;
- f) testing the accuracy of data reported on a sample basis for limited and reasonable assurance;
- g) reviewing the consolidation of the data at Head Office to obtain an understanding of the consistency of the reporting processes compared with prior years and to obtain explanations for deviations in performance trends;
- h) reviewing the consistency between the Identified Sustainability Information and related statements in Kumba's Report; and
- i) reviewing the accuracy of Kumba's self-declaration of the GRI (G3.0) Application Level in the Report.

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

The evidence-gathering procedures for limited assurance are more restricted than for reasonable assurance and therefore less assurance is obtained with limited assurance than for reasonable assurance.

We have not carried out any work on data reported for prior reporting periods, nor have we performed work in respect of future projections and targets. We have not conducted any work outside of the agreed scope and therefore restrict our opinion to the Identified Sustainability Information.

## INHERENT LIMITATIONS

Non-financial data is subject to more inherent limitations than financial data, given both the nature and the methods used for determining, calculating, sampling or estimating such data. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgments.

Conversion factors used to derive energy used from fuel and electricity consumed, is based upon information and factors derived by independent third parties. Our assurance work has not included an examination of the derivation of those factors and other third party information.

## CONCLUSION

### Reasonable assurance

Based on our work performed, the Identified Sustainability Information selected for reasonable assurance, for the year ended 31 December 2011, is free from material misstatement.

### Limited assurance

Based on our work performed, nothing has come to our attention causing us to believe that the Identified Sustainability Information selected for limited assurance, for the year ended 31 December 2011, is materially misstated.



### PricewaterhouseCoopers Inc.

Director: Wessie van der Westhuizen  
Johannesburg

20 March 2012

# SHAREHOLDERS' INFORMATION

## KUMBA'S SHARE PRICE PERFORMANCE

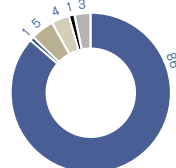
### Share price analysis for year ended 31 December 2011

On 30 December 2011, Kumba's share price closed at R500. Kumba's share price high for the period 1 January 2011 to 31 December 2011 was R528.19, recorded on 1 August 2011. Kumba's share price low for the same period was R415.00 on 15 March 2011. The average daily trading volume for the period 1 January 2011 to 31 December 2011 was 505,273 shares per day.

Kumba's market capitalisation on 30 December 2011 was R160.75 billion.

### Geographical split of shareholders\*

(%)



\*as at 31 December 2011



## SHAREHOLDERS' ANALYSIS

### Top 10 shareholders as at 31 December 2011

Rank	Investor	% (as at 31 Dec)	No of shares (as at 30 Dec)	City
1	Anglo American South Africa Capital	65.2	210,049,096	Johannesburg
2	Industrial Development Corporation	12.9	41,498,615	Johannesburg
3	Public Investment Corporation	4.3	13,899,737	Pretoria
4	BlackRock Investment Management	1.8	5,661,730	London
5	Absa Capital	1.3	4,189,074	Johannesburg
6	Lazard Asset Management	1.1	3,396,826	New York
7	GIC – Govt of Singapore Investment Corporation	0.6	1,933,860	Singapore
8	Vanguard Group	0.6	1,892,882	Philadelphia
9	Acadian Asset Management	0.4	1,352,922	Boston
10	BlackRock Investment Management (BGI)	0.4	1,166,511	San Francisco

## SHAREHOLDER DIARY 2012

4 May 2012 – Annual General Meeting

19 July 2012 – Interim results presentation

# GLOSSARY OF TERMS AND ACRONYMS

## ACRONYMS:

<b>ABET:</b>	adult basic education and training
<b>AIDS:</b>	acquired immune deficiency syndrome
<b>AMSA:</b>	ArcelorMittal South Africa
<b>APB:</b>	Accounting Practices Board
<b>ART:</b>	anti-retroviral treatment
<b>BBBEE:</b>	broad-based black economic empowerment
<b>BEE:</b>	black economic empowerment
<b>CCT:</b>	counselling and confidential testing
<b>CDP:</b>	Carbon Disclosure Project
<b>DEA:</b>	Department of Environmental Affairs
<b>DED:</b>	Department of Economic Development
<b>DMR:</b>	Department of Mineral Resources
<b>DMS:</b>	dense media separation
<b>DSO:</b>	direct shipping ore
<b>DTI:</b>	Department of Trade and Industry
<b>EMS:</b>	environmental management systems
<b>FOB:</b>	freight on board
<b>GAAP:</b>	Generally Accepted Accounting Principles
<b>GJ:</b>	gigajoule
<b>GMO:</b>	Global Marketing Organisation
<b>GRI:</b>	Global Reporting Initiative
<b>HIV:</b>	human immunodeficiency virus
<b>HDSA:</b>	historically disadvantaged South African
<b>ICT:</b>	Imperial Crown Trading 289 (Pty) Ltd
<b>ICMM:</b>	International Council on Metals and Mining
<b>IDC:</b>	Industrial Development Corporation
<b>IFRIC:</b>	International Financial Reporting Interpretation
<b>IFRS:</b>	International Financial Reporting Standards
<b>ISAE:</b>	International Standards for Assurance Engagements
<b>ISO:</b>	International Organization for Standardisation
<b>IWUL:</b>	integrated water use licence
<b>JSE:</b>	JSE Limited, Johannesburg Stock Exchange
<b>LOM:</b>	life of mine
<b>LTIFR:</b>	lost-time injury frequency rate
<b>Mt:</b>	million tonnes
<b>Mtpa:</b>	million tonnes per annum
<b>NGO:</b>	non-governmental organisation
<b>NIHL:</b>	noise induced hearing loss
<b>NUM:</b>	National Union of Mineworkers
<b>OFM:</b>	Ocean Freight Management
<b>PIC:</b>	Public Investment Corporation
<b>RAP:</b>	resettlement action plan
<b>ROM:</b>	run of mine
<b>SAMREC:</b>	South African Code for the Reporting of Mineral Resources and Mineral Reserves 2007
<b>SCD:</b>	social and community development
<b>SEAT:</b>	socio-economic assessment toolkit
<b>SHEQ:</b>	safety, health, environment and quality
<b>SIOC:</b>	Sishen Iron Ore Company (Pty) Limited
<b>SIOC CDT:</b>	Sishen Iron Ore Company Community Development Trust
<b>SLPs:</b>	social and labour plans
<b>SWEP:</b>	Sishen South Westerly Expansion project
<b>TFR:</b>	Transnet Freight Rail

## DEFINITIONS

<b>Beneficiation:</b>	a process to increase iron content and reduce gangue content in very low-grade iron ore
<b>BIF:</b>	Banded Iron Formation. A sedimentary rock consisting of layers of iron-rich hematite or magnetite
<b>Blast furnace:</b>	a heating system that is used to smelt iron ore
<b>Direct reduction shaft:</b>	a shaft in which iron ore pellets or lump iron ore are reduced to metallic iron
<b>Direct shipping ore:</b>	Iron ore typically composed of haematite, which requires little beneficiation due to its high iron content. Rarer than BIF but cheaper to mine
<b>Employment equity:</b>	Legislation assisting the elimination of discrimination and encouraging equitable representation of employees from designated groups by means of affirmative action
<b>Feasibility study:</b>	a detailed investigation into a particular venture, taking cost, design, geological, mining, metallurgical, economic, marketing, legal, environmental, social, governmental, engineering and operational factors into account
<b>Gap analysis:</b>	a comparison between potential performance and actual performance
<b>Grade:</b>	a measure of the metal or mineral content in ore, expressed as a weight or percentage
<b>High(er) grade ore:</b>	Iron ore composed of ~60% iron, most commonly haematite rock
<b>King Code (King III):</b>	Code of and Report on Governance Principles for South Africa
<b>Low(er) grade ore:</b>	Iron ore consisting of between 25% and 30% iron, most commonly magnetite rock
<b>LTIFR:</b>	Lost-time injury frequency rate (the number of lost-time injuries, including restricted work cases, per 200,000 man hours worked)
<b>Market capitalisation:</b>	the market value of a company's outstanding shares, calculated by multiplying the number of outstanding shares and the current price of a single share
<b>Mining Charter:</b>	a broad based socio-economic charter for the South African mining industry, published in April 2004
<b>NIHL:</b>	Noise induced hearing loss, resulting from exposure to high-intensity sound, usually over a prolonged period of time
<b>Ore:</b>	A rock that contains metal(s) or mineral(s) that can be extracted
<b>Pelletising:</b>	the process of agglomerating very fine iron ore so that it can be used in the iron-making process
<b>Prefeasibility phase:</b>	the period that precedes the feasibility study, in which experts determine whether undertaking a feasibility study would be prudent
<b>Prospecting right:</b>	a permit that enables a company to survey an area of land in order to identify an actual or probable mineral deposit
<b>Smelting:</b>	The process in which metal is extracted from its ore. The process involves the use of heat and a reducing agent in order to remove oxygen from the ore.
<b>Stripping ratio:</b>	the number of tonnes of waste material that must be removed in order to recover a single tonne of ore
<b>Tonne:</b>	A metric measure, equal to 1,000 kilograms

## ADMINISTRATION

### COMPANY REGISTRATION NUMBER:

2005/015852/06

**JSE share code:**  
KIO

**ISIN code:**  
ZAE000085346

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Registered Auditors  
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### FORWARD-LOOKING STATEMENTS

Certain statements made in this report constitute forward-looking statements. Forward-looking statements are typically identified by the use of forward-looking terminology such as 'believes', 'expects', 'may', 'will', 'could', 'should', 'intends', 'estimates', 'plans', 'assumes' or 'anticipates' or the negative thereof or other variations thereon or comparable terminology, or by discussions of, e.g. future plans, present or future events, or strategy that involves risks and uncertainties. Such forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the company's control and all of which are based on the company's current beliefs and expectations about future events. Such statements are based on current expectations and, by their nature, are subject to a number of risks and uncertainties that could cause actual results and performance to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statement. No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the company and its subsidiaries. The forward-looking statements contained in this report speak only as of the date of this report and the company undertakes no duty to, and will not necessarily, update any of them in light of new information or future events, except to the extent required by applicable law or regulation.