

# ECONOMIC REVIEW

## VALUE ADDED

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As one of the largest companies in South Africa, Kumba creates substantial value for a number of stakeholders including employees, the government, shareholders and service providers.

## PROCUREMENT

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Developing suppliers is one of Kumba's priorities. Kumba has a number of programmes in place designed to train local and HDSA suppliers such that they can take advantage of opportunities to supply Kumba.

## ENTERPRISE DEVELOPMENT

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Kumba's Social and Community Development Department coordinates the company's enterprise development initiative in conjunction with Anglo American Zimele. The initiative is designed to support small and medium enterprises with funding, mentoring and other relevant guidance.



The primary crusher at Sishen Mine

# ECONOMIC REVIEW

## VALUE CREATED IN 2010

Kumba is a key employer, trainer, generator of revenue, profit and taxes and contributor to socio-economic development especially in the Northern Cape province, but also in the Limpopo province and South Africa as a whole.

In this section, the socio-economic reach of Kumba is described. This ranges from the group's value add, to black economic empowerment (BEE), including preferential procurement and HDSA ownership.

Some R28.5 billion (2009: R15.7 billion; 2008: R15.6 billion; 2007: R7.6 billion) of value has been created for stakeholders during this year. Our stellar financial performance in 2010, as demand for iron ore was driven by world crude steel production exceeding pre-2008 levels, together with continued progress in our capital projects and a sustained focus on operational efficiencies should ensure future growth is sustained for all our stakeholders.

Cost control remains a major focus of the group as we face the challenges of the cost of increased waste mining as we mine deeper. Cost management,

operational efficiency and revenue enhancement initiatives stemming from our asset optimisation programmes contributed to containing costs at our operations, which together added R1.9 billion to operating profit and increasing revenue in 2010.

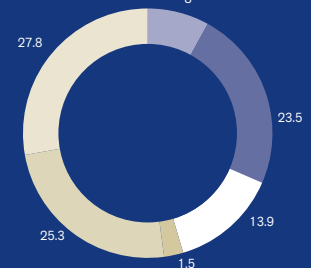
This value was derived from:

- the Start of Bokamoso transformation programme at Sishen Mine which delivered mining operational efficiency gains by limiting mining cost increases (R340 million);
- asset optimisation initiatives which saw the jig plant produce in excess of design capacity and mitigated production challenges experienced at the DMS plant (R1.2 billion); and
- our development of niche lump ore products which command premium prices in the market and professionalising our shipping operations (R368 million).

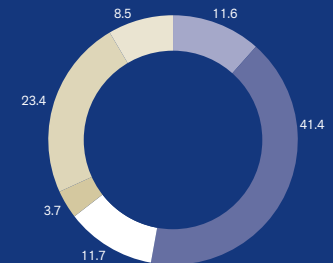
An additional R687 million in procurement benefits was realised from participation in the Anglo American Supply Chain procurement organisation



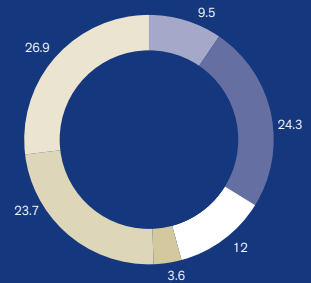
2010 VALUE CREATED (%) R28.5 billion



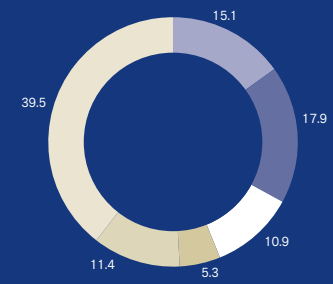
2009 VALUE CREATED (%) R15.7 billion



2008 VALUE CREATED (%) R15.6 billion



2007 VALUE CREATED (%) R7.6 billion



- Employees (including employees' tax)
- Shareholders of Kumba Iron Ore
- Minority interests
- Providers of loan capital
- Governments – direct taxes
- Reinvested in the group

A successful taxation system balances government's need to raise revenues for its citizens, with the desire to attract and maintain investment, generate jobs, wealth and an entrepreneurial spirit. It is important to note that our contribution goes beyond the corporate income tax paid by a company on its profits. A company's tax footprint includes corporate income tax, royalties, withholding taxes, payroll taxes, VAT, import and export duties. The taxes and royalties borne by Kumba amounted to R8.4 billion in 2010, including normal tax and secondary tax on companies of R7.0 billion, an increase of 97% over 2009. In addition, there are taxes which arise as a result of our operations which, although not a cost to Kumba, are collected by us and remitted to government. These include payroll taxes and VAT. In 2010 this amounted to R784 million, giving a total tax footprint for the year of R9.2 billion.

The group continued to generate substantial cash from its operations, with R25.6 billion generated during the year. These cash flows were used to pay the taxation, new mining royalties of R1.4 billion, aggregate dividends of R8.6 billion (representing a 24% return to shareholders for 2010) and capital expenditure of R4.7 billion during 2010.

The development of Kolomela Mine is well advanced in terms of key deliverables. Overall project progress is at 81% with the project remaining on budget and on schedule to deliver initial production at the end of the first half of 2012, ramping up to full capacity of 9Mtpa in 2013. To date, 22.6Mt of waste material has been pre-stripped. 18.6Mt of this material was stripped during 2010 at a cost of R793 million which has been capitalised. R8.5 billion capital expenditure was approved for the development of the Kolomela Mine, of which R5.3 billion of capital expenditure has been incurred to date and a further R1.2 billion had been committed as at 31 December 2010. The project is already providing employment for some 555 employees (2009: 262 employees) increasing to over 1,000 as the project ramps up.

The cost of goods, materials and services purchased for the year amounted to R7.3 billion, a 28% increase over the R5.7 billion spent in 2009.

During 2010, we paid R2.3 billion in salaries and other benefits:

#### Salaries and other benefits

	2010 Rm	2009 Rm	% change
Sishen Mine – Northern Cape	1 399	1 135	23
Kolomela Mine – Northern Cape	109	44	148
Thabazimbi Mine – Limpopo	227	267	(15)
Corporate and offshore	549	412	33
<b>Total</b>	<b>2 284</b>	<b>1 814</b>	<b>26</b>

Salaries and benefits were made up as follows:

#### Breakdown of salaries and benefits

	2010 Rm	2009 Rm	% change
Salaries and wages	1 883	1 508	25
Pension and medical	195	164	19
Share-based payments	206	142	45
<b>Total</b>	<b>2 284</b>	<b>1 814</b>	<b>26</b>

As part of the unbundling from the then Kumba Resources Limited in 2006, Kumba implemented various transactions in which 26% ownership in SIOC was transferred to Exxaro Resources (20%), SIOC Community Development Trust through a SPV (3%) and Envision, our broad-based employee share participation scheme (3%). These parties, along with Kumba, participate in the dividend declared by SIOC.

The following dividends have been declared since 2006:

#### Dividends

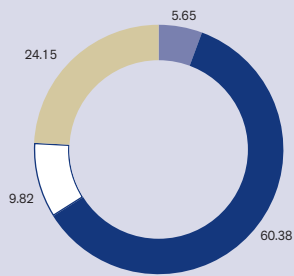
Rm	Total 2006 to 2010		Total dividend			
	2010	2009	2008	2007	2006	
Dividend declared by SIOC	32 939	13 982	6 295	9 040	3 266	356
Kumba	24 376	10 348	4 658	6 690	2 417	263
Exxaro	6 585	2 796	1 259	1 808	653	69
SIOC Community Development Trust	989	419	189	271	98	12
Envision	989	419	189	271	98	12

The group's strong cash flow generation enabled the consistent payment of an interim and final dividend since its listing on the JSE Limited in November 2006. The capital and substantial dividend cash returns has resulted in the SIOC Community Development Trust being able to use the dividends it received from SIOC to pay for its 3% interest in SIOC in full during the third quarter of 2010, six years earlier than originally anticipated. Based on Kumba's share price of R425 on 31 December 2010 this shareholding is valued at over R5 billion. All future dividends earned by the trust's shareholding will be available for community development.

The SIOC Employee Share Participation Scheme (or Envision as it is commonly known) was implemented to provide (i) an incentive and retention initiative to employees who are permanently employed by SIOC in South Africa and who do not participate in the other share schemes of the group and (ii) for the promotion of black economic empowerment through an increase in broad-based and effective participation in the equity of SIOC by historically disadvantaged South Africans. The acquisition of the 3% interest in SIOC by Envision was funded by Sishen Iron Ore Company in terms of a contribution agreement. The scheme will have a first term of five years and contemplates a second term on the same basis as the first term, starting on the expiry of the first term. Envision holds SIOC shares for the benefit of employee beneficiaries, who in turn have been allocated units notionally linked to the SIOC shares (underlying shares). Employee beneficiaries of Envision receive a portion of all dividends received by Envision from SIOC in respect of the underlying shares (totalling R988 million since inception of the scheme in November 2006) and the remainder used to settle the original acquisition funding. To date R215 million of the total dividends has distributed to employees to date and R773 million utilised to repay the original funding and interest thereon. A capital distribution will be made to employee beneficiaries at the end of the first term (five years). Each employee will be entitled to receive Kumba shares which will be swapped for the SIOC shares using the specific price earnings ratio of Kumba and the most recent earnings of SIOC at the end of the first term, alternatively to receive the cash value of the Kumba swapped shares.

Kumba generated its revenue through the sale and transportation of iron ore to customers in the following regions:

2010

HSDA DISCRETIONARY SPEND  
PER MINE [%]

■ Head office  
 ■ Sishen Mine  
 ■ Thabazimbi Mine  
 ■ Kolomela Mine

## ENTERPRISE DEVELOPMENT DATA

# 26

NUMBER OF BUSINESSES  
ESTABLISHED 2008 – 2009

# 11

NUMBER OF BUSINESSES  
ESTABLISHED 2010

# 316

JOBS CREATED

# R10.7 million

LOANS PROVIDED 2008 – 2009

# R4.8 million

LOANS PROVIDED 2010

# R54 million

SMALL BUSINESS TURNOVER  
2008 – 2009

# R28.6 million

SMALL BUSINESS TURNOVER  
2010

# R5,8 million

LOANS REPAYED

## Breakdown of revenue (2010)

	2010 Rm	2009 Rm
Total revenue	38 704	23 408
Domestic	2 874	1 359
Export	35 830	22 049
China	23 112	16 770
Rest of Asia	7 465	3 128
Europe	4 896	2 151
Middle East	300	–
South America	57	–

Kumba achieved record revenues of R38.7 billion in 2010, up 65% year-on-year. This increase in revenue was driven by: Kumba realising a 92% weighted average increase in export iron ore prices for the group; the sale of 33% of our exports at index prices; and the move to the negotiation of prices on a quarterly basis. In addition, we increased our export sales volume by 6% or 1.9Mt on which these higher prices were realised.

Our domestic sales remain dependent on the off-take requirements of ArcelorMittal.

## PROCUREMENT

Of the R13.7 billion Kumba spent during 2010, R9.4 billion was discretionary of which R3.6 billion or 39.10% was spent with BEE suppliers. This is an increase from the previous two years both in absolute and proportional terms. This increase is in line with our policy which recognises local procurement as of strategic importance to the company. It plays a key role in securing and maintaining the right to mine, developing thriving communities, creating efficiencies in the supply chain and ensuring reliable access to supplies.

### Key procurement data

	Total payments	Total discretionary payments	BEE payments	% BEE of discretionary
2008	9 011 364 572	5 980 401 982	2 154 532 983	36.03
2009	12 535 484 593	8 577 336 577	3 160 601 934	36.85
2010	13 765 397 014	9 401 107 477	3 675 679 142	39.10

In order to strengthen its preferential procurement drive and exceed its mandatory obligations, Kumba has a number of initiatives in operation. These include the implementation of a local supplier development strategy and a concerted effort to verify the BEE status of existing suppliers. By 2014, Kumba aims to procure 40% of its capital requirements, 50% for consumables and 70% of its services from BEE suppliers. Furthermore, Kumba is establishing a preferential procurement transformation committee which will monitor progress in terms of meeting the targets. Kumba will be advertising some of its tenders on the DMR website. These will be ringfenced and only open to HDSA suppliers.

## SUPPLY CHAIN AND SUSTAINABLE DEVELOPMENT

Preferential procurement is a significant component of the supply chain and sustainable development policy. However, there are other factors including safety, health and environmental issues which contractors need to be aware of. Kumba will be attaching a questionnaire to tenders such that potential service providers can provide Kumba with information on their SHE management practices, in addition to questions relating to BEE. This ultimately forms part of a broader supplier development strategy.

## ENTERPRISE DEVELOPMENT

Coordinated by Kumba's Social and Community Development Department, in collaboration with Anglo American Zimele (the small business development arm of Anglo American [www.anglozimele.co.za](http://www.anglozimele.co.za)), enterprise development is regarded as an important component of creating viable local economies, increasing employment, and helping people to achieve their goals by providing funding for the establishment of small and medium businesses, advice on business planning and ongoing mentoring.

Over the last few years, 37 new businesses were established which created 360 permanent jobs, and generated R29 million in turnover during 2010 (see data on opposite page). Through Kumba's mentorship programme, 340 small and medium enterprises were assisted and advised. Much of Kumba's enterprise

development activities are driven out of the small business hub at Kathu but increasing activity is expected from Postmasburg, where Kolomela Mine is located, once the mine ramps up to full production.

Kumba's enterprise development programme fits well with its vision for the post-mining landscape. It anticipates that the efforts expended in enabling the creation of these businesses will last beyond the life of its mines.

Some of the new businesses established include the following:

- Butterland Bakery in Thabazimbi.
- Hydroponics farming supported by Kolomela – the project received a recognition award in the district for best agricultural project in its category.
- Commercial Poultry Farming.
- Upgrade at Boichoko Bakery.



Employees of Kalahari Verspreiders, a small enterprise supported through Kumba's enterprise development programme

## SUCCESS STORIES

### SISHEN MINE

Tenders were issued in September 2010 for the construction of caucus rooms for the mining operations section. Booi Holdings, a black-owned local supplier, was awarded the tender beating five other suppliers for the job.

Another tender for the construction and expansion of offices for the mining production division was issued in October 2010. Ekhyalitle Construction, a local black-owned supplier, was the successful tenderer.

Tsimo Gardens, a nursery and gardening business in Kathu, whose establishment was

facilitated by Sishen Mine's Social and Community Development Department and Anglo American Zimele, was awarded a contract to provide gardening services to Sishen Mine.

### KOLOMELA MINE

In collaboration with Kolomela Mine, the Tsantsabane Local Municipality identified the need for a complete change-house service which includes laundry services and the cleaning of ablution facilities. This project was included in the Kolomela Social and Labour Plan. The municipality provided the building, identified the beneficiaries while Kumba provided the funding to renovate

the building, purchase equipment and consumables. Kumba also appointed a consultant to assist the newly formed company with their business plan.

Kolomela Mine's procurement section entered into negotiations with Dirt Friends to provide the abovementioned services at market related prices. After negotiations, Kolomela Mine entered into a two-year contract with Dirt Friends. A company with 100% BEE credentials were created and established through this initiative.