

TERMS ANNOUNCEMENT RELATING TO THE SWAP OF SISHEN IRON ORE COMPANY (PROPRIETARY) LIMITED ("SIOC") ORDINARY SHARES ("SIOC SHARES") FOR NEWLY ISSUED KUMBA ORDINARY SHARES ("KUMBA SHARES") AND THE SPECIFIC REPURCHASE OF KUMBA SHARES FOR PURPOSES OF A SPECIAL GENERAL MEETING TO BE HELD ON OR ABOUT 31 OCTOBER 2011

Highlights

- The first phase of Envision will end on 17 November 2011
- For illustrative purposes, an anticipated pre-tax monetary benefit of R2.5 billion will accrue to participants (based on a Kumba share price of R468.35 on 20 September 2011)
- The second phase of Envision will enable the future ownership of 3.09% of SIOC by the SIOC ESPS Trust
- SIOC will make a substantial contribution to the second phase of Envision to ensure a strong possibility of success
- Kumba shareholders' indirect shareholding in SIOC will remain largely unaffected

1. Introduction

The first maturity date for the SIOC Employee Share Participation Scheme ("SIOC ESPS") or more commonly referred to as Envision, will take place on 17 November 2011, being the anniversary of the fifth year from the date of issue of SIOC Shares to the SIOC ESPS. This first period of Envision is referred to as the "First Capital Appreciation Period". Participating Employees, being employees of SIOC up to and including first line supervisors, who are eligible to be beneficiaries of the SIOC ESPS and are permanently employed by SIOC on 17 November 2011, will become beneficially entitled to a number of SIOC Shares on the First Capital Appreciation Period.

The implementation of a swap of the SIOC Shares acquired by Participating Employees in exchange for the issue by Kumba of new Kumba Shares ("Share Swap") and the specific repurchase of Kumba Shares ("Kumba Specific Repurchase") acquired by the Participating Employees in terms of the Share Swap, will be implemented by a series of subsequent agreements to implement the second phase of Envision. The Kumba Specific Repurchase, although not prescribed in the SIOC ESPS Trust Deed, is required to give Participating Employees, who have elected to receive cash, the ability to monetise their shareholding.

The Share Swap will provide the Participating Employees with tradeable listed Kumba Shares (to the extent that a beneficiary elects to retain their shares) in respect of their entitlement and the Kumba Specific Repurchase will provide Participating Employees with a cash equivalent (to the extent that a beneficiary elects to receive cash) and to settle the outstanding tax obligations of those employees who elect to receive Kumba Shares.

2. Rationale

The Share Swap and Kumba Specific Repurchase are required to give effect to the unwind of the first phase and implementation of the second phase of Envision. As part of the unwind procedure, the terms of the SIOC ESPS Trust Deed (being the Trust Deed that established and governs the trust ("SIOC ESPS Trust") which facilitates the SIOC ESPS) makes provision for the Share Swap, as well as the conclusion of a series of subsequent agreements to implement the second phase of Envision. The Kumba Specific Repurchase, although not prescribed in the SIOC ESPS Trust Deed, is required to give Participating Employees, who have elected to receive cash, the ability to monetise their shareholding.

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3. Overview of the Transaction

The Share Swap and Kumba Specific Repurchase will form part of the unwind of the first phase. The unwind of the first phase will be implemented through the following transaction steps:

- The SIOC ESPS Trust will subscribe for a further 3.09% of shares in SIOC ("Subsequent Subscription Shares"), at least five Business Days prior to the end of the First Capital Appreciation Period and these Subsequent Subscription Shares will be held by the SIOC ESPS Trust for the duration of the Second Capital Appreciation Period;
- SIOC will repurchase ("SIOC First Repurchase"), at par value, so many SIOC Shares as is determined on the application of the prescribed repurchase formula ("SIOC Repurchase Formula") set out in the original subscription agreement concluded between the SIOC ESPS Trust and SIOC on or about 11 September 2006 ("the Subscription Agreement") for the allotment and issue of 360 SIOC Shares, which shares were subsequently subdivided into 360 000 SIOC Shares on 29 November 2006 ("Subscription Shares");
- The SIOC Repurchase Formula will be used to determine the number of shares that SIOC will be entitled to repurchase at par value in order to cancel the notional vendor finance mechanism between the SIOC ESPS Trust and SIOC and to acquire the shares remaining as unallocated in the SIOC ESPS Trust ("the SIOC Unallocated Shares"). The repurchased SIOC Shares will be cancelled as issued shares;
- The SIOC Shares remaining in the SIOC ESPS Trust, post the SIOC First Repurchase, will be distributed ("SIOC Distributed Shares") to the Participating Employees on the maturity date of the First Capital Appreciation Period. The number of SIOC Distributed Shares to be distributed to Participating Employees will be based on the number of units allocated to the relevant Participating Employees;
- The SIOC Distributed Shares will be exchanged for Kumba Shares ("Kumba Swapped Shares") in terms of the Share Swap. Kumba will issue new shares to acquire the SIOC Distributed Shares in terms of the Share Swap. The Share Swap ratio will be determined with reference to the five-day volume weighted average price per share of Kumba Shares to 17 November 2011 ("Transaction Share Price");
- SIOC will subsequently repurchase from Kumba a number of SIOC Shares equal to the SIOC Distributed Shares acquired by the Participating Employees on the maturity date of the SIOC shareholding to the appropriate proportions that prevailed prior to the Transaction ("SIOC Specific Repurchase"); and
- Finally, the Kumba Specific Repurchase will be executed to acquire Kumba Shares from the Participating Employees who elected to receive cash (as well as that portion of shares from Participating Employees who elected to receive Kumba Shares as is required to settle their outstanding tax obligations) by way of a specific repurchase at the Transaction Share Price.

The implementation of the second phase of Envision (committed to as part of the suite of transactions undertaken in 2006 when Kumba Resources Limited was demerged to form Kumba Iron Ore Limited and Kumba Resources Limited ("Envision")) was achieved through SIOC issuing a further 3.09% shares to the SIOC ESPS Trust. The SIOC ESPS Trust Deed further prescribed that the second phase of Envision will be on substantially similar terms and conditions as the first phase of Envision. Consequently, the SIOC ESPS Trust will allocate new units to qualifying employees pursuant to the implementation of the second phase of Envision. The second phase of Envision will mature on the fifth anniversary of the issue and allotment of the 3.09% SIOC Shares to the SIOC ESPS Trust ("the Second Capital Appreciation Period"). The shareholding impact will be that the implementation of the second phase of Envision will enable the future ownership by the SIOC ESPS Trust of 3.09% in SIOC for a further five-year period and Kumba shareholders' indirect ownership into SIOC will remain largely unaffected.

The mechanism adopted will therefore not result in a significant net change in the issued share capital of Kumba following the Kumba Specific Repurchase.

4. Terms of the Transaction

4.1 Background

The shares in SIOC are currently held as follows:

- 74% by Kumba;
- 20% by Exxaro;
- 3% by the SIOC Community Development Trust SPV (Proprietary) Limited ("SIOC Community Development Trust"); and
- 3% by SIOC ESPS Trust.

4.2 The unwind of the First Capital Appreciation Period and Second Capital Appreciation Period Implementation

In terms of the SIOC ESPS Trust Deed, at least five Business Days prior to the end of the First Capital Appreciation Period, the SIOC ESPS Trust must subscribe for the Subsequent Subscription Shares. These shares must be held by the SIOC ESPS Trust for the duration of the Second Capital Appreciation Period, in accordance with the provisions of the SIOC ESPS Trust Deed.

The First Capital Appreciation Period will end on 17 November 2011. Pursuant to this, SIOC will effect the SIOC First Repurchase, in terms of which a sufficient number of Subscription Shares will be repurchased at par value to settle the notional vendor finance and acquire the SIOC Unallocated Shares.

The SIOC ESPS Trust will make a distribution of the SIOC Distributed Shares remaining in the SIOC ESPS Trust to each of the Participating Employees on a *pro rata* basis based on the number of units allocated to each of them.

The difference between the par value and the market value of the repurchased SIOC Unallocated Shares (as inferred from the Kumba Share price and on the assumption that the SIOC Unallocated Shares are not subject to the rights and restrictions attaching to the Subscription Shares as set out in SIOC's memorandum of incorporation) will be applied to reduce the notional vendor finance opening notional balance in respect of the Second Capital Appreciation Period. This ensures the rollover of any value created in the SIOC ESPS Trust into the Second Capital Appreciation Period, ultimately for the benefit of the Participating Employees.

4.3 Implied Specific Issue of shares for cash

4.3.1 The Share Swap

Kumba will acquire all of the SIOC Distributed Shares from the Participating Employees in exchange for the issue of Kumba Swapped Shares at the Transaction Share Price.

The number of Kumba Swapped Shares to be issued by Kumba in consideration for the SIOC Distributed Shares shall be determined with reference to the following formula:

$$K = \frac{\text{SIOC Distributed Shares} \times S}{\text{Transaction Share Price}}$$

Where:

S = the value of each SIOC Share on 17 November 2011, represented as a price per share, determined by applying the Transaction Price Earnings Ratio (being the Transaction Share Price divided by the audited diluted earnings per share of Kumba for the year ended 31 December 2010, being R46.52) to the most recent earnings per share of SIOC, being approximately R15.15.

For illustrative purposes, based on the Kumba Share price of R468.35 on 20 September 2011, the following number of SIOC Distributed Shares are expected to be acquired and the following number of Kumba Swapped Shares are expected to be issued:

	Number of Shares
SIOC Distributed Shares to be acquired	15 396 665
Kumba Swapped Shares to be issued	5 238 418
Rand	
Value of Kumba Swapped Shares	2 453 413 070

4.3.2 The SIOC Specific Repurchase

Subsequent to the implementation of the Share Swap, it is proposed that SIOC repurchases the same number of shares from Kumba, as Kumba would have acquired from the Participating Employees. This will enable the SIOC shareholding structure to revert substantially to its pre-Transaction position.

The Share Swap and the SIOC Specific Repurchase have the resultant effect of an issue of shares for cash by Kumba, in terms of the JSE Listings Requirements, with Kumba having a net cash injection from the SIOC Specific Repurchase (the Share Swap and the SIOC Specific Repurchase are collectively referred to as the "Implied Specific Issue").

4.4 The Kumba Specific Repurchase

To the extent that, following the Share Swap, the Participating Employees in the SIOC ESPS have elected to receive cash instead of retaining the Kumba Swapped Shares, Kumba will repurchase the Kumba Swapped Shares from the SIOC ESPS Trustees (acting as an agent for and on behalf of the Participating Employees in terms of the SIOC ESPS Trust Deed) at the Transaction Share Price ("Kumba Repurchase Shares").

Furthermore, to the extent that the Participating Employees elect to retain the Kumba Swapped Shares as opposed to the cash value, the SIOC ESPS Trustees shall act in accordance with the election made by the Participating Employees and dispose of a certain number of the Kumba Swapped Shares (as is required to settle the Participating Employee's tax and realisation costs) to Kumba in terms of the Kumba Specific Repurchase and transfer the remaining Kumba Swapped Shares to such Participating Employees.

For illustrative purposes, based on the Kumba Share price of R468.35 on 20 September 2011, the consideration to repurchase the Kumba Swapped Shares (assuming all Participating Employees elect to receive cash) is expected to be the following:

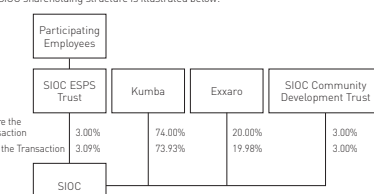
Number of Kumba Repurchase Shares	5 238 418
Repurchase consideration	R2 453 413 070

The Kumba Specific Repurchase and the delisting of the Kumba Repurchase Shares is expected to be effected on 29 November 2011. The Kumba Specific Repurchase is therefore not expected to have an impact on the number of Kumba Shares held in treasury, as the Kumba Repurchase Shares will be delisted immediately upon being repurchased.

Participating Employees were notified to submit their election between retaining Kumba Swapped Shares and receiving the cash equivalent thereof by no later than 31 August 2011. As at 20 September 2011, approximately 99.80% of the Participating Employees had (or were deemed to have) elected to receive the cash value of the Kumba Swapped Shares and approximately 0.20% of the Participating Employees had elected to receive the actual Kumba Swapped Shares.

4.5 SIOC shareholding structure

The SIOC shareholding structure is illustrated below:



5. Subsequent Share Swap

At the end of the Second Capital Appreciation Period, SIOC will repurchase a number of the Subsequent Subscription Shares from the SIOC ESPS Trust ("SIOC Subsequent Repurchase"). Following the SIOC Subsequent Repurchase, the SIOC ESPS Trust will distribute the remaining Subsequent Subscription Shares to the Participating Employees ("Subsequent Distributed Shares"). Kumba will then acquire all of the Subsequent Distributed Shares from the Participating Employees in exchange for the issue of Kumba Shares at the end of the Second Capital Appreciation Period.

6. Pro forma financial effects of the Transaction

The unaudited *pro forma* financial effects of the Transaction on Kumba are set out below and are based on the most recently published results of Kumba for the six months ended 30 June 2011, and were prepared in order to provide the illustrative financial effects of the Transaction assuming that the Transaction took place on 1 January 2011 for the purposes of the *pro forma* income statement and on 30 June 2011 for the purposes of the *pro forma* balance sheet. The unaudited *pro forma* financial information is based on the assumptions set out below, which include assumptions on the Kumba Share price.

The accounting policies of Kumba for the six months ended 30 June 2011, which are consistent with the accounting policies for the year ended 31 December 2010, have been used in preparing the *pro forma* financial information.

There are no post-balance sheet events which require adjustments to the *pro forma* financial information.

The unaudited *pro forma* financial information is the responsibility of the directors of Kumba and was prepared for illustrative purposes only and may not, because of its nature, fairly present Kumba's financial position, changes in equity, results of its operations or cash flows as at the relevant reporting date. It does not purport to be indicative of what the financial results would have been, had the Transaction been implemented on a different date.

	Six months ended 30 June 2011	Unwind and Second Capital Appreciation Period implementation	Before the Share Swap, the SIOC Specific Repurchase and Kumba Specific Repurchase	Share Swap
Basic earnings per share [R]	28.20	[0.64]	27.56	[0.44]
Headline earnings per share [R]	28.23	[0.64]	27.59	[0.44]
Net asset value per share [R]	51.49	10.05	61.54	[0.14]
Net tangible asset value per share [R]	51.49	10.05	61.54	[0.14]
Weighted average number of shares in issue (millions)	321	321	321	326
Number of shares in issue (millions)	322	322	322	327

	SIOC Specific Repurchase	Kumba Specific Repurchase	Pro forma after the Share Swap, the SIOC Specific Repurchase and Kumba Specific Repurchase	% change after the Share Swap, the SIOC Specific Repurchase and Kumba Specific Repurchase
Basic earnings per share [R]	[0.01]	0.32	27.43	[0.47]
Headline earnings per share [R]	[0.01]	0.31	27.45	[0.51]
Net asset value per share [R]	[0.19]	[6.64]	54.57	[11.33]
Net tangible asset value per share [R]	[0.19]	[6.64]	54.57	[11.33]
Weighted average number of shares in issue (millions)	326	321	321	-
Number of shares in issue (millions)	327	322	322	-

Notes and assumptions:

The unaudited *pro forma* information for the six months ended 30 June 2011 reflects the Kumba Group's *pro forma* financial results after accounting for the Transaction. The following assumptions have been applied:

- Unwind and Second Capital Appreciation Period implementation
 - 37 880 000 SIOC shares for 3.09% of the issued share capital of SIOC issued to the SIOC ESPS Trust for the extension of the SIOC ESPS for the Second Capital Appreciation Period.
 - Earnings reduce by the indicative economic cost of the shares under option [IFRS 2: Share Based Payment Expense] for the Second Capital Appreciation Period of R3,443 million. This cost is recognised as an expense over the five-year capital appreciation period of the second phase of the scheme. The adjustment is continuing in nature and the portion included in the abovementioned earnings represents the estimated initial six months expense.
 - There is a temporary increase in the non-controlling interest in SIOC and a consequential reduction in share capital and reserves.
 - Key assumptions made in the economic cost [IFRS 2] valuation include the following:
 - Black-Scholes option valuation model has been utilised;
 - Kumba reference share price of R468.35 on 20 September 2011;
 - Share price volatility based on historic experience; and
 - A dividend yield of 6.6% based on historic experience.
- Share Swap

There is a temporary increase in Kumba's interest in SIOC resulting from the Share Swap.
- SIOC Specific Repurchase
 - Securities Transfer Tax cost of R6 million arising from the repurchase of SIOC Shares from Kumba is non-recurring in nature.
- Kumba Specific Repurchase
 - Reduction of interest income earned at an assumed deposit rate of approximately 5.3% per annum, for the six months ended 30 June 2011, resulting from the estimated outflow of cash of R2,453 million subsequent to the Kumba Specific Repurchase. This is continuing in nature.
 - Securities Transfer Tax cost of R6 million arising from the repurchase of Kumba Shares by Kumba is non-recurring in nature.
- Transaction costs of R16 million, relating to the implementation of the Transaction, which are once-off in nature, are included in operating expenses and current liabilities.
- The above assumes that all the Participating Employees elect to receive the cash value of the Kumba Swapped Shares as opposed to receiving the actual Kumba Swapped Shares.
- A Kumba Share price of R468.35 at 20 September 2011 has been assumed for the Transaction.

7. Conditions precedent

7.1 Implied Specific Issue

7.1.1 Share Swap

The issue of the Kumba Swapped Shares to the SIOC ESPS Trustees (acting collectively in their capacity as agents for and on behalf of Participating Employees) is conditional upon:

- The Company obtaining the approval, by ordinary resolution of its shareholders with a 75% majority of the votes cast in favour (thereof), in accordance with the JSE Listings Requirements and in accordance with Article 3.2 of the memorandum of incorporation of the Company, for the placing of sufficient authorised but unissued ordinary shares in the Company under the control of its directors in order to give effect to the Share Swap Agreement, being the agreement concluded between the Company and the SIOC ESPS Trust (acting as agent for and on behalf of the Participating Employees) on 21 September 2011, containing the terms and conditions of the Share Swap;
- Obtaining the requisite JSE approvals, including confirmation in writing that it will admit the Kumba Swapped Shares to listing.

7.1.2 SIOC Specific Repurchase

The SIOC Specific Repurchase is conditional upon the following:

- The Share Swap Agreement having been implemented; and
- SIOC obtaining the approval, by special resolution of its shareholders, for the repurchase of the SIOC Shares from Kumba in accordance with the terms of the SIOC Specific Repurchase Agreement and the provisions of the memorandum of incorporation of SIOC.

7.2 Kumba Specific Repurchase

The Kumba Specific Repurchase is conditional upon:

- The Share Swap Agreement having been implemented;
- The Company obtaining the approval, by special resolution of its shareholders, for the Kumba Specific Repurchase in accordance with the terms of the Kumba Specific Repurchase Agreement;
- The SIOC ESPS Trustees having notified Kumba of the number of Kumba Shares offered for repurchase in terms of the Kumba Repurchase Agreement;
- Obtaining the requisite JSE approvals.

8. Documentation

Kumba shareholders are advised that, in accordance with the JSE Listings Requirements, a circular to shareholders, together with a notice of a general meeting of Kumba shareholders, will be issued in due course containing further details of the Transaction.

Centurion
22 September 2011

Merchant bank and sponsor



Independent reporting
accountants and auditors



Legal and tax advisor



Tax advisors

