



## Exxaro Resources Limited

*(previously Kumba Resources Limited)*

(Incorporated in the Republic of South Africa)

(Registration number 2000/011076/06)

Share code: EXX ISIN: ZAE000084992

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### Directors

#### **Non-executive**

P M Baum  
J J Geldenhuys#  
U Khumalo  
Dr D Konar#  
V Z Mntambo  
R P Mohring#  
P K V Ncetezo  
N Nyembezi-Heita#  
N Sowazi  
D R Zihlangu  
# Independent

#### **Executive**

Dr C J Fauconnier (*Chief Executive Officer*)  
S A Nkosi  
M J Kilbride  
D J van Staden

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## Circular to shareholders

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### 1. INTRODUCTION

Shareholders were advised by means of an announcement published on 19 January 2007 that Exxaro Base Metals had exercised the Black Mountain option, in terms of which Exxaro Base Metals would acquire a 26% interest in Black Mountain, and KZN Sands had exercised the Namakwa Sands option, in terms of which KZN Sands would acquire Namakwa Sands.

The purpose of this circular is to provide shareholders with information on the transaction in terms of the Listings Requirements and to convene the general meeting at which shareholders will be requested to approve the ordinary resolutions necessary to implement the transaction.

### 2. RATIONALE FOR THE TRANSACTION

The transaction will position Exxaro strategically as one of the world's largest suppliers of titanium dioxide feedstock and zircon and strengthen its position in the South African zinc market.

Exxaro already enjoys a prominent position in the mineral sands business, with operations in KwaZulu-Natal and a 50% ownership in the Tiwest Joint Venture, a fully integrated mineral sands and pigment producer in Western Australia.

Exxaro currently owns the only zinc metal refinery in South Africa, holds a controlling interest in the Rosh Pinah zinc mine in Namibia and has a 30% economic interest in the Chifeng refinery in the People's Republic of China.

### 3. TERMS OF THE BLACK MOUNTAIN ACQUISITION

#### 3.1 Purchase consideration

Exxaro will acquire, through Exxaro Base Metals, a 26% interest in Black Mountain from AOL for a purchase consideration of R180 million payable in cash with effect from the Black Mountain effective date. The purchase consideration will be adjusted for movements in the working capital

balances and exploration expenditure incurred by AOL in respect of the areas of proximity to the Gamsberg ore body, subject to Exxaro's proportional share of a maximum of R17 million, at the Black Mountain effective date. The total purchase price following adjustments will not exceed R450 million.

### **3.2 Conditions precedent**

The Black Mountain acquisition is conditional upon the fulfillment of the following conditions precedent:

- conversion and registration of the old order mining rights relating to the Black Mountain mine into new order mining rights in terms of the MPRDA;
- the consent of the Minister of Minerals and Energy in terms of the MPRDA to the cession of the converted new order mining rights to Black Mountain;
- cession of the new order mining rights relating to the Black Mountain business from AOL to Black Mountain;
- approval by Exxaro shareholders in general meeting;
- AOL receiving written confirmation acceptable to it that Exxaro has sufficient funding available to satisfy its obligations in terms of the Black Mountain acquisition; and
- the approval of the competition authorities in South Korea and Germany (if required).

### **3.3 Shareholders arrangements**

Exxaro Base Metals, AOL and Black Mountain have concluded an agreement to regulate: (i) the relationship between Exxaro Base Metals and AOL as shareholders in Black Mountain and (ii) the relationship between Exxaro Base Metals, AOL and Black Mountain. The salient terms of the agreement are detailed in Annexure 3 hereto.

### **3.4 Other terms and conditions**

The Black Mountain Option Agreement contains such further terms and conditions as are usual in a transaction of this nature.

## **4. TERMS OF THE NAMAKWA SANDS ACQUISITION**

### **4.1 Purchase consideration**

Exxaro will acquire from AOL, through Exxaro TSA, Namakwa Sands, as a going concern, with effect from the Namakwa Sands effective date, for a purchase consideration of R2 015 million payable in cash. The purchase consideration will be subject to the following adjustments but will not exceed R3 350 million.

#### **4.1.1 Capital expenditure on Project 1000**

In November 2005, AOL announced the approval of Project 1000. Any capital expenditure incurred by AOL in respect of Project 1000 from 1 January 2006 until the Namakwa Sands effective date will be added to the cash consideration. The budgeted amount for 2006 for Project 1000 was R158 million.

#### **4.1.2 Tax recoupment**

AOL is likely to be required to pay a tax recoupment to the South African Revenue Service for tax allowances previously claimed on capital assets in Namakwa Sands. Exxaro, as the new owner of the Namakwa Sands assets, will receive the benefit of the tax allowances on the acquired capital value, which will reduce future tax payments. Therefore, the cash consideration will be increased by the net present value of the future benefit received by Exxaro once the recoupment suffered by AOL has been determined.

The increased consideration (arising as a result of the tax recoupment incurred by AOL) will be vendor funded by AOL on terms no less favourable than the Exxaro long-term loan facilities raised in relation to the empowerment transaction.

#### **4.1.3 Working capital**

The cash consideration will be adjusted for movements in the working capital balances of Namakwa Sands as at the Namakwa Sands effective date.

## 4.2 Conditions precedent

The Namakwa Sands acquisition is conditional upon the fulfilment of the following conditions precedent:

- conversion and registration of the old order prospecting and mining rights relating to Namakwa Sands into new order prospecting and mining rights in terms of the MPRDA;
- the consent of the Minister of Minerals and Energy in terms of the MPRDA to the cession of the converted new order mining and prospecting rights to Exxaro TSA;
- cession of the new order prospecting and mining rights relating to Namakwa Sands by AOL to Exxaro TSA;
- approval by Exxaro shareholders in general meeting;
- AOL receiving confirmation from Exxaro's funders that Exxaro has sufficient funding available to satisfy its obligations in terms of the Namakwa Sands acquisition; and
- the approval of the competition authorities in Spain.

## 4.3 Other terms and conditions

The Namakwa Sands Option Agreement contains such further terms and conditions as are usual in a transaction of this nature.

## 5. INFORMATION ON BLACK MOUNTAIN

### 5.1 Overview of operations

The Black Mountain base metal mine, which is located adjacent to the town of Aggeneys in the Northern Cape Province of South Africa, exploits lead, zinc, copper and silver from the mining of ore from various deposits.

The mine produces three concentrates, with the zinc concentrate delivered to Exxaro's zinc refinery located in Springs, Gauteng Province, South Africa. Lead and copper concentrates, from which silver is also extracted, are exported to various smelters worldwide through the port of Saldanha Bay.

### 5.2 Information on the Gamsberg project

The Gamsberg project potentially has production capacity of up to 300ktpa of zinc metal. A small quantity of production from Gamsberg is currently being mined by underground methods and this is being processed at the established Black Mountain process plant. The presence of manganese precludes the possibility of the export of concentrate product. This will require the development of a refinery at the site should large scale development of the project proceed.

The Gamsberg project provides for a possible life-of-mine of approximately 30 years.

### 5.3 Production data

The following table sets out the salient production data for Black Mountain.

	Year ended 31 December 2004	Year ended 31 December 2005	Six months ended 30 June 2006
Ore mined (kt)	1 518	1 413	759
Ore processed (kt)	1 500	1 350	715
Ore grade processed (%)			
Zinc	2,7	3,3	3,2
Lead	3	3,7	3,9
Copper	0,5	0,4	0,4
Production (kt)			
Zinc in concentrate	28	32	15
Lead in concentrate	38	42	21
Copper in concentrate	5	3	2

## 5.4 Financial information

The following table sets out the salient financial information relating to Black Mountain.

<b>US\$ million</b>	<b>Year ended 31 December 2004</b>	<b>Year ended 31 December 2005</b>	<b>Six months ended 30 June 2006</b>
Turnover	49	80	64
EBITDA	2	12	13

## 6. INFORMATION ON NAMAKWA SANDS

### 6.1 Overview of operations

Namakwa Sands is a mineral sands business located in the Western Cape Province of South Africa. Its major assets are:

- a mineral sands mine located at Brand-se-Baai, approximately 60 kilometres west of Koekenaap on the west coast, consisting of a mineral sands mine, two primary concentrator plants and a secondary concentrator plant;
- a mineral separation plant, located 7 kilometres west of Koekenaap which is used to separate ilmenite, rutile and zircon into discrete products; and
- the smelter located near Saldanha Bay at which ilmenite is smelted to produce titanium dioxide slag and pig iron.

### 6.2 Production data

The following table sets out salient production data for Namakwa Sands for the year ended 31 December 2005 and for the interim period ended 30 June 2006.

	<b>Year ended 31 December 2005</b>	<b>Six months ended 30 June 2006</b>
Ore mined	18 100	8 700
Production		
Ilmenite	316	165
Rutile	29	14
Zircon	129	64
Smelter production		
Slag	164	81
Iron	105	53

### 6.3 Financial information

The following table sets out the salient financial information for Namakwa Sands.

<b>US\$ million</b>	<b>Year ended 31 December 2004</b>	<b>Year ended 31 December 2005</b>	<b>Six months ended 30 June 2006</b>
Revenue	146	175	89
EBITDA	37	48	26

## 7. RELATED PARTY

AOL is a wholly-owned, indirect subsidiary of Anglo American plc, which is a material shareholder of Exxaro. Accordingly AOL, the vendor of Namakwa Sands and Black Mountain, is a related party of Exxaro in terms of the Listings Requirements and the transaction will be treated as a related party transaction.

Anglo American plc and its associates will be taken into account in determining the quorum at the general meeting, but their votes will not be taken into account in determining the results of the voting at the general meeting.

## 8. FINANCIAL INFORMATION

The Black Mountain acquisition and Namakwa Sands acquisition will have a dilutionary effect of less than 3% on Exxaro's *pro forma* earnings per share and headline earnings per share for the six months ended 30 June 2006 and on Exxaro's *pro forma* net asset value per share and net tangible asset value per share at 30 June 2006. For the purposes of the calculation it has been assumed that the total purchase consideration for the Black Mountain acquisition is R180 million and for the Namakwa Sands acquisition, R2 173 million.

## 9. OTHER INFORMATION ON EXXARO

### 9.1 Incorporation

Exxaro was incorporated and registered in South Africa in terms of the Act on 7 June 2000, with the registration number 2000/011076/07, under the name Vicva Investments and Trading Seven (Proprietary) Limited. On 27 March 2001, Vicva Investments and Trading Seven (Proprietary) Limited was converted to a public company and with effect from 2 May 2001 its name was changed to Kumba Resources Limited ("Kumba"). Kumba was listed on the JSE on 26 November 2001. On 2 November 2006, Kumba's name was changed to Exxaro Resources Limited.

### 9.2 Material changes

On 9 October 2006, Exxaro published a circular setting out the terms of an empowerment transaction. In terms of the empowerment transaction, Exxaro unbundled a controlling interest in its iron ore operations and control of Exxaro was transferred to BEE Holdco, a black owned and controlled vehicle, through a fully funded empowerment transaction.

Other than for the empowerment transaction, details of which were disclosed in the Kumba circular, and the Black Mountain acquisition and Namakwa Sands acquisition, there have been no material changes to the financial or trading position of Exxaro and its subsidiaries between 30 June 2006, being the end of its last interim period and the date of this circular.

### 9.3 Major shareholders

At the last practicable date, the following shareholders had a beneficial interest of 5% or more of Exxaro's issued share capital.

Name	Number of Exxaro shares held	Percentage shareholding
BEE Holdco	186 550 873	53,1
Anglo American plc*	83 231 522	23,7

\* The shareholding of Anglo American plc is held through Anglo South African Capital (Proprietary) Limited and Stimela Mining (Proprietary) Limited.

Save as disclosed above, to the best knowledge of the directors of Exxaro, no other shareholder holds more than 5% of the Exxaro shares.

## **10. MATERIAL CONTRACTS**

Save for the contracts listed below, the Exxaro Group has not at any time entered into any material contracts:

- within the two-year period ending on the last practicable date; or
- at any time and containing an obligation or settlement that is material to the Exxaro Group at the last practicable date,

otherwise than in the ordinary course of the business.

All material contracts referred to below are available for inspection in terms of paragraph 14 below.

### **10.1 Agreements relating to the empowerment transaction**

The agreements concluded to facilitate the empowerment transaction and funding arrangements are summarised in Annexure 4 to this circular.

### **10.2 Exxaro Australia Sands acquisition**

The acquisition by way of a scheme of arrangement pursuant to the Australian Corporations Act 2001 of all of the issued ordinary shares in Exxaro Australia Sands that Exxaro did not already own, for a cash consideration of A\$226 million. Prior to concluding the Exxaro Australia Sands acquisition, Exxaro, through a wholly-owned subsidiary, owned 51,54% of the issued share capital of Exxaro Australia Sands.

### **10.3 Agreements relating to the transaction**

The agreements concluded to facilitate the transaction, being the Black Mountain Option Agreement and the Namakwa Sands Option Agreement.

## **11. EXPERTS' CONSENTS**

The merchant bank and transaction sponsor, attorneys, corporate law advisers and independent expert have consented in writing to act in the capacities stated and to their names being published in this circular and have not withdrawn their consents prior to the publication of this circular.

The independent expert has consented in writing to its name and opinions being included in this circular in the form and context in which they appear and has not withdrawn its consent prior to the publication of this circular. The independent expert's consent letter is available for inspection in terms of paragraph 14 below.

## **12. DIRECTORS' RESPONSIBILITY STATEMENT**

The directors, whose names appear on page 7 of this circular, collectively and individually:

- accept full responsibility for the accuracy of the information given in this circular;
- certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement in this circular false or misleading, and that they have made all reasonable inquiries in this regard and that this circular contains all the information required by law and the Listings Requirements.

## **13. OPINIONS AND RECOMMENDATION**

The Exxaro Board has considered the terms and conditions of the transaction. The independent expert has provided the Exxaro Board with written opinions dated 12 February 2007 that, as of the date thereof, based upon and subject to matters considered, assumptions used and qualifications set forth therein, the Black Mountain acquisition and Namakwa Sands acquisition are, from a financial point of view, fair and reasonable to Exxaro shareholders, other than Anglo American plc and its subsidiaries and affiliates.

The independent expert's opinions are included as Annexures 1 and 2 to this circular.

The directors have considered the terms and conditions of the transaction and are of the opinion that such terms and conditions are in the best interests of Exxaro and its shareholders. The directors accordingly recommend that shareholders vote in favour of the ordinary resolutions necessary to implement the transaction. All the directors who hold shares in Exxaro will vote in favour of the ordinary resolutions necessary to implement the transaction.

#### **14. DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents, or copies thereof, will be available for inspection by shareholders from Monday, 19 February 2007 to Tuesday, 6 March 2007 during normal business hours on business days, at the registered office of Exxaro:

- Exxaro's memorandum and articles of association;
- the latest Competent Persons' Report which was made available to shareholders as part of the empowerment transaction;
- the material contracts listed in paragraph 10 above;
- the audited annual financial statements of Exxaro for each of the last three financial years ended 31 December 2005 and the interim financial statements for the six months ended 30 June 2006;
- the opinions of the independent expert;
- summary of directors' service agreements; and
- consent letters of the merchant bank and transaction sponsor, attorneys, corporate law advisers and independent expert.

By order of the Exxaro Board

**Dr C J Fauconnier**  
*Chief Executive Officer*

**D J van Staden**  
*Chief Financial Officer*

19 February 2007

**Registered office**

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