



Reflections on Leadership: The Exxaro Story

Presentation by Dr Con Fauconnier, CEO to the GIBS Forum

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exxaro

POWERING POSSIBILITY



Overview of presentation

- **History**
- **Rationale for the transaction**
- **The process**
- **The transaction**
- **Exxaro today**
- **Investment proposition and market reaction**
- **What is keeping us busy at the moment?**
- **Reflections on leadership: Perspectives from the Exxaro story**



History





History: From Iscor to Kumba ...

- **Iskor – parastatal steel producer with mining interests: 1928-1989**
- **Iskor privatisation: November 1989**
- **Iskor strategy 1994 : growth of mining**
- **Re-engineering: 1996-2000 – 33 000 employees retrenched**
- **Iskor strategy 1999: work towards unbundling, 6 strategic business units**
- **Decision by Board to unbundle: November 2000**
- **New listing of Kumba Resources Ltd and re-listing of Iscor Ltd on the JSE: 26 November 2001**



History: From Kumba to Exxaro ...

- **Flying start 2001/2002**
- **Anglo's growing interest in Kumba:**
 - **March 2002: 20,1% strategic interest acquired on the open market**
 - **October 2003: 35% mark is breached, triggering a compulsory offer to minorities**
 - **September 2003: Competition Tribunal approves "merger" between Anglo and Kumba**
 - **December 2003: controlling stake of 66,62%**
- **March 2004: Anglo and Kumba agree in principle to:**
 - **Unbundle the iron ore assets from Kumba**
 - **Commence with an empowerment process for Kumba's assets**



History: From Kumba to Exxaro ...(continued)

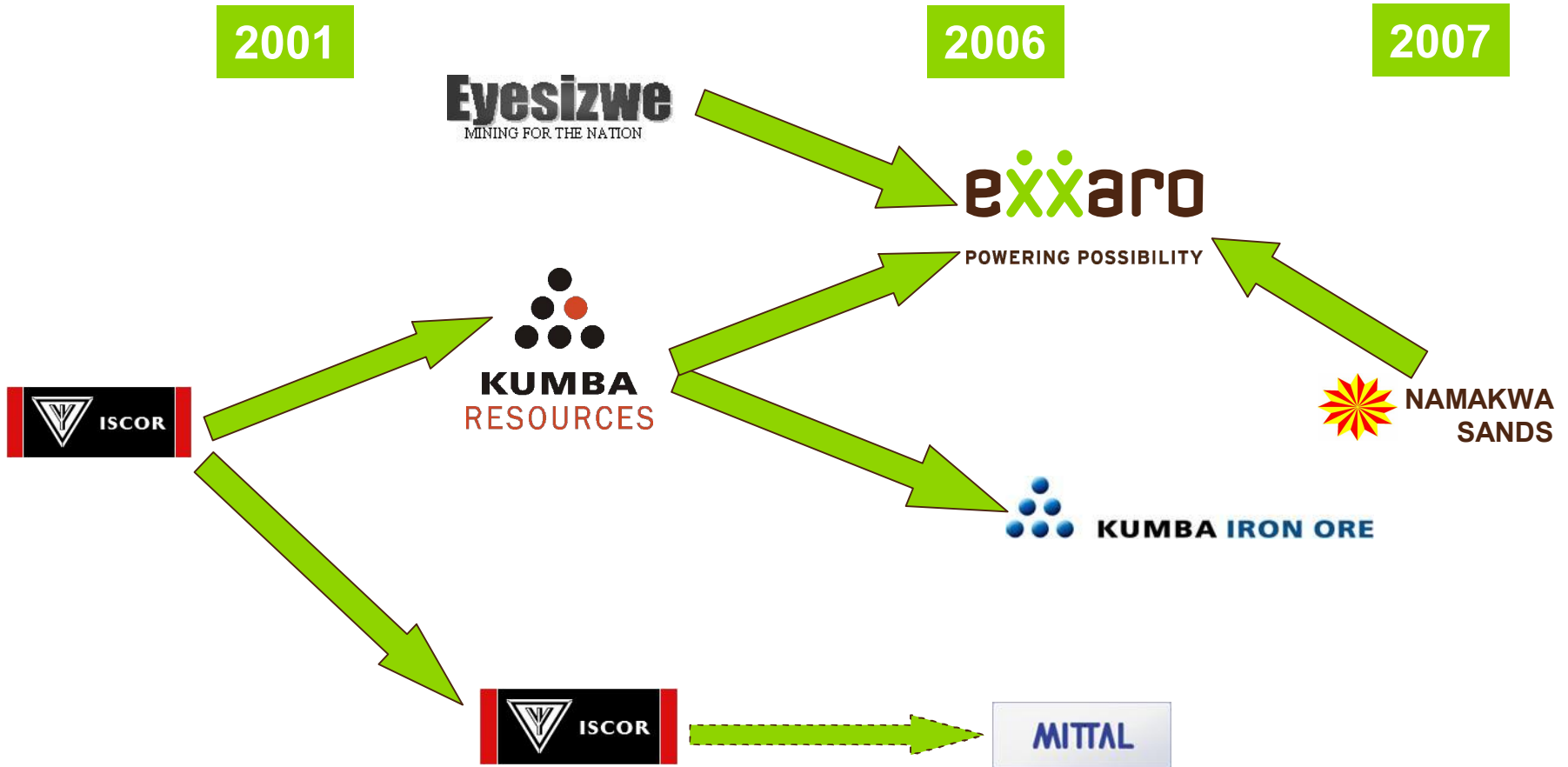
- **Exxaro in the making:**
 - **March 2004- September 2005: selection of BEE partners and construction of the transaction framework**
 - **October 2005: Anglo/Kumba/IDC/BEE Consortium jointly announce the conclusion of a Transaction Framework Agreement**
- **October 2005: Kumba acquires 100% of Tigor Ltd in Australia (up from 51,4%)**
- **October 2005- November 2006: Detailed negotiations, due-diligence investigations and detailed agreements (>100)**
- **The listings:**
 - **21 November 2006: Kumba Iron Ore Ltd – new listing on JSE**
 - **26 November 2006: Non-iron ore assets of Kumba merged with Eyesizwe Coal and re-listed as Exxaro Resources Limited**



History: Since the listing of Exxaro ...

- **Christmas/New Year – we needed that!**
- **19 January 2007: Option to acquire 100% of Namakwa Sands and 26% of Black Mountain/Gamsberg from Anglo is exercised**
- **29 January 2007: Construction of the Inyanda Coal Mine commences**
- **13 February 2007: Exxaro and Tronox Inc announce plans to expand the Tiwest titanium dioxide pigment plant in Australia (40% increase)**
- **6 March 2007: The Namakwa and Black Mountain/Gamsberg transactions are approved by Exxaro shareholders (99,9%)**
- **3 April 2007: Exxaro and Anglo announce the placement of 19 million Exxaro shares held by Anglo in the market to increase the free-float to over 25%**
- **April 2007: Eskom announces that Exxaro has been awarded the coal supply contract for Phase 1 of the new Medupi power station (4500MW) to be built in the Waterberg (8,5 Mtpa supply contract). Phase 2 being negotiated.**

To summarise the history ...





Rationale for the transaction and process





Rationale for the transaction

KUMBA: Value unlock for shareholders through separate listing of Steel and Mining assets, because

- mining (Kumba) main contributor to earnings, but
- company (original Iscor) was rated as a steel stock

EXXARO:

- Conversion of Mining Rights in terms of the MPRDA (and Charter) promulgated on 1 May 2004
- Governance difficulties resulting from Anglo's shareholding in Kumba (coal, zinc, mineral sands)
- Anglo's principal interest in iron ore
- Value unlock in the longer term through growth opportunities

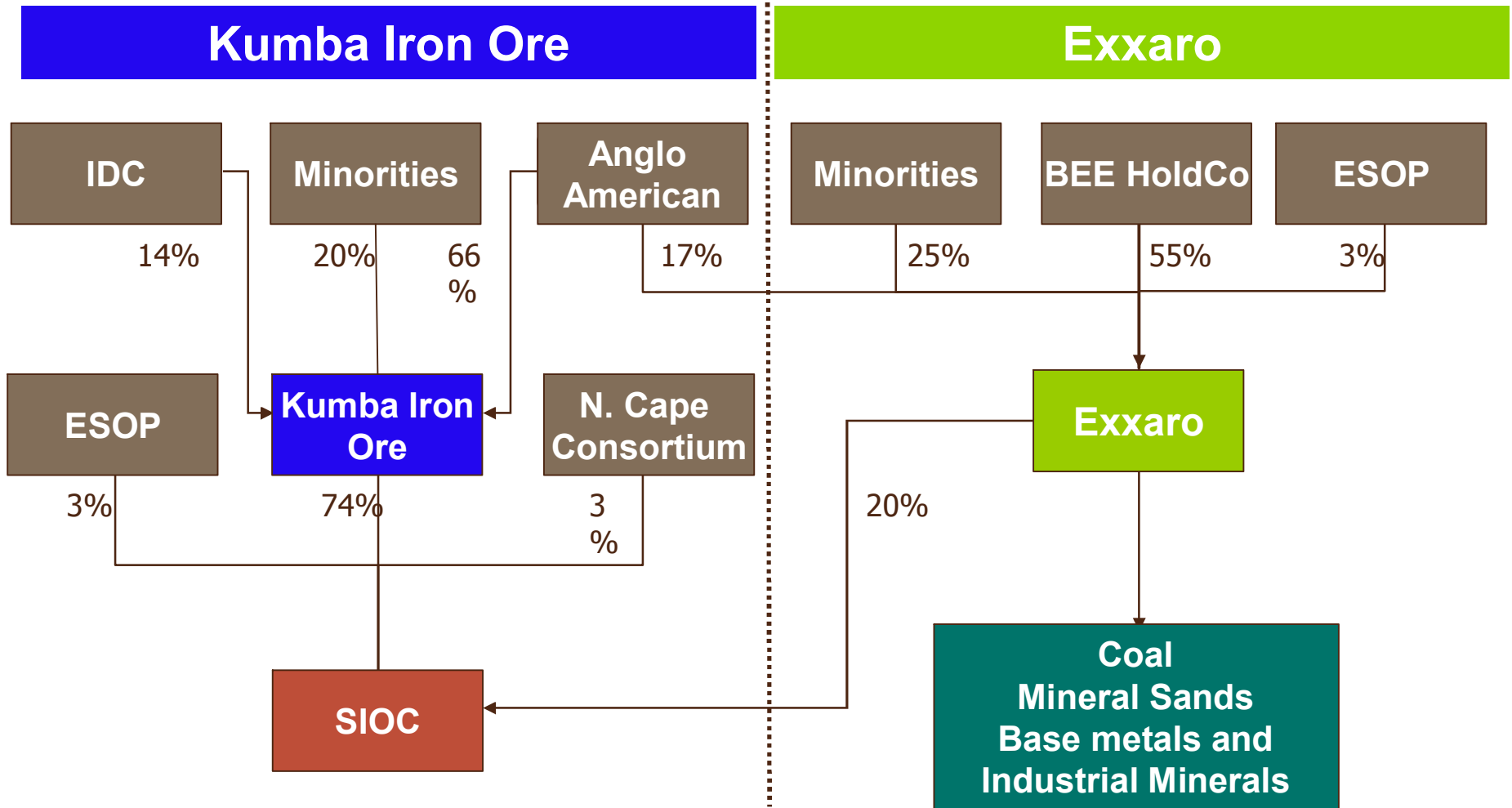


The process

- **Agreement between Kumba and Anglo on the conceptual structure addressing issues such as:**
 - Anglo's continued interest in iron ore
 - Empowerment requirements of the MPRDA
 - Governance issues relating to the non-iron ore assets
 - Commitments to government
- **Selection of BEE partners**
 - Long list of potential candidates
 - Selection criteria
 - Short list: intensive interaction
 - Selection of lead partner and other consortium partners
- **Structuring of deal and agreement on broad numbers**
- **Transaction Framework Agreement**
- **Due diligence investigations**
- **Final agreements**
- **Listing of Kumba Iron Ore and re-listing of Exxaro Resources**



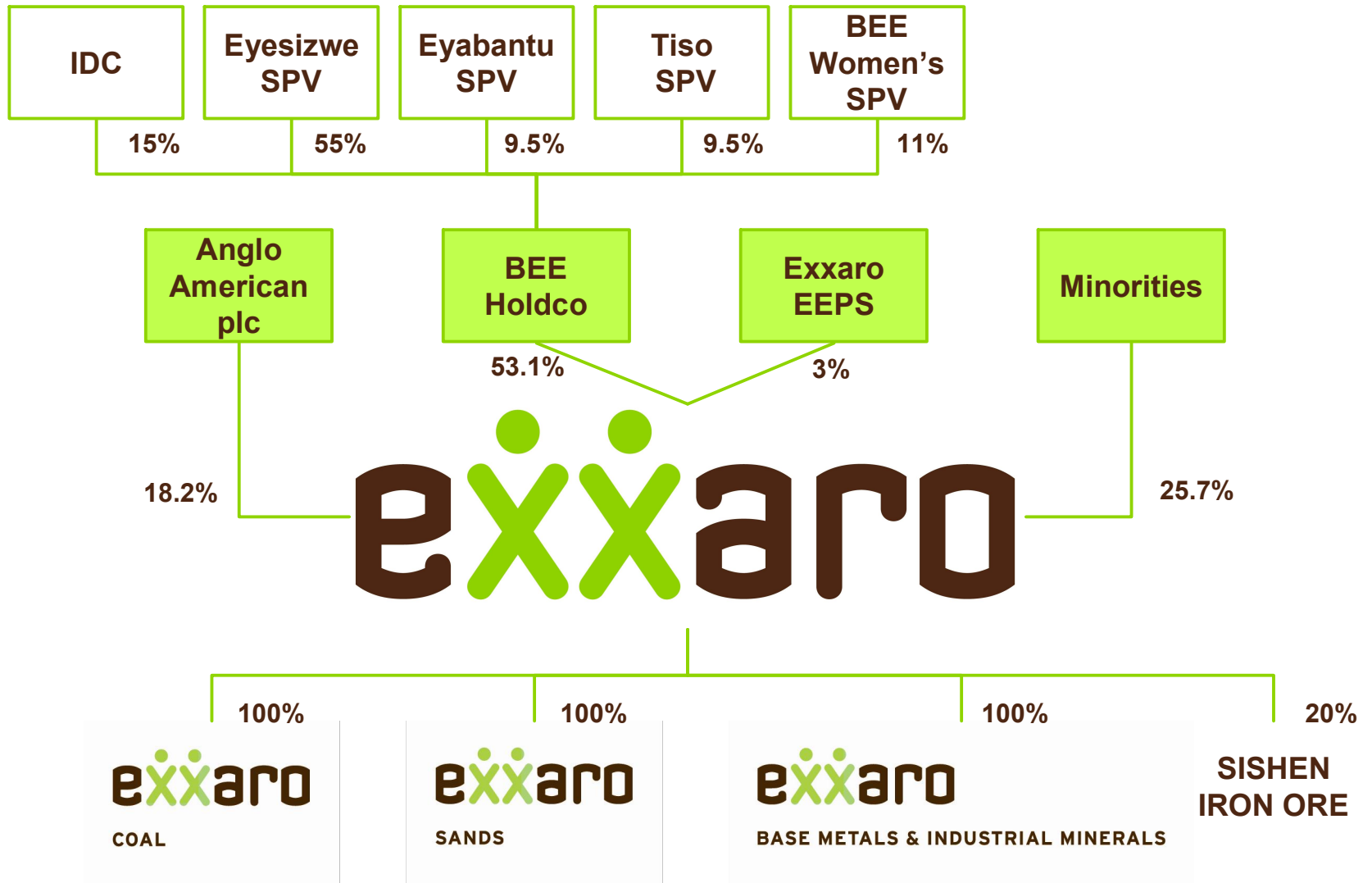
The transaction



Creation of two sustainable, focused, empowered companies...



Current shareholder structure





Exxaro today



Our commodities



COAL

the fourth largest coal producer in South Africa



MINERAL SANDS

one of the world's top three producers of zircon and chlorinatable TiO_2 slag



BASE METALS AND INDUSTRIAL MINERALS

the only zinc producer in South Africa

IRON ORE

20% holding in Sishen Iron Ore Company

At a glance...

- South Africa's largest black-owned company (>50%)
- One of the top 40 companies on the JSE
- 8 300 permanent employees
- Corporate office in Pretoria, South Africa
- Revenue: R8.81bn*
- Net operating profit: R1.26bn*

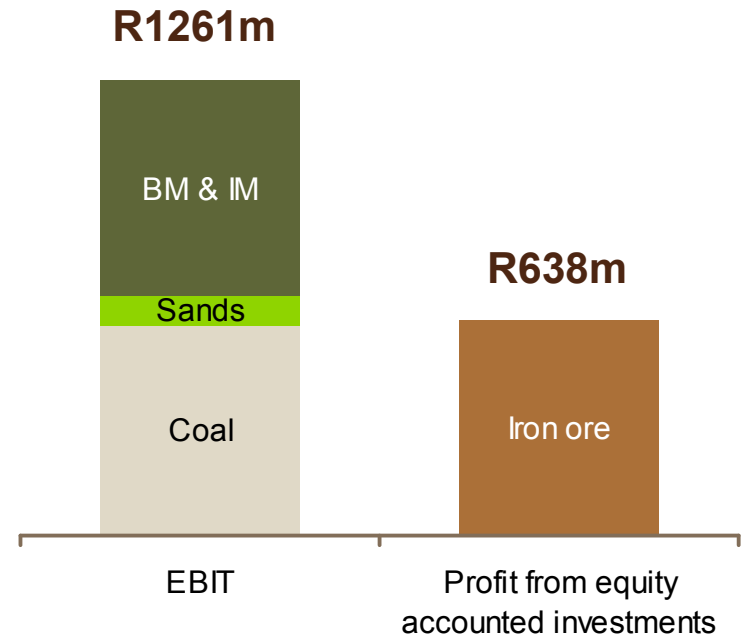
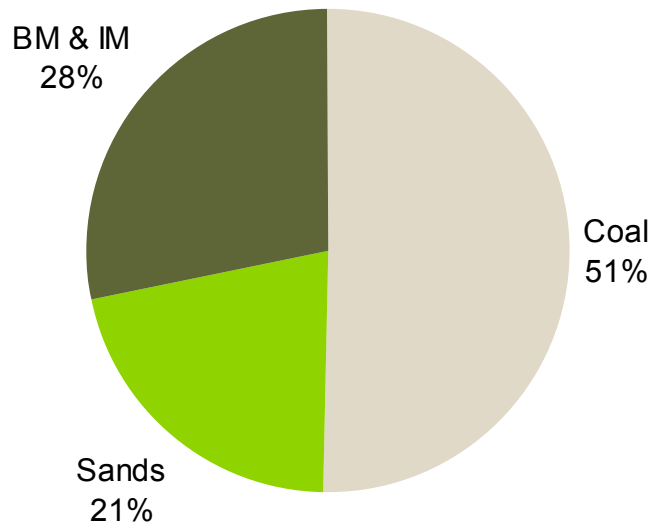
* pro forma 2006 results





Financial overview: 2006

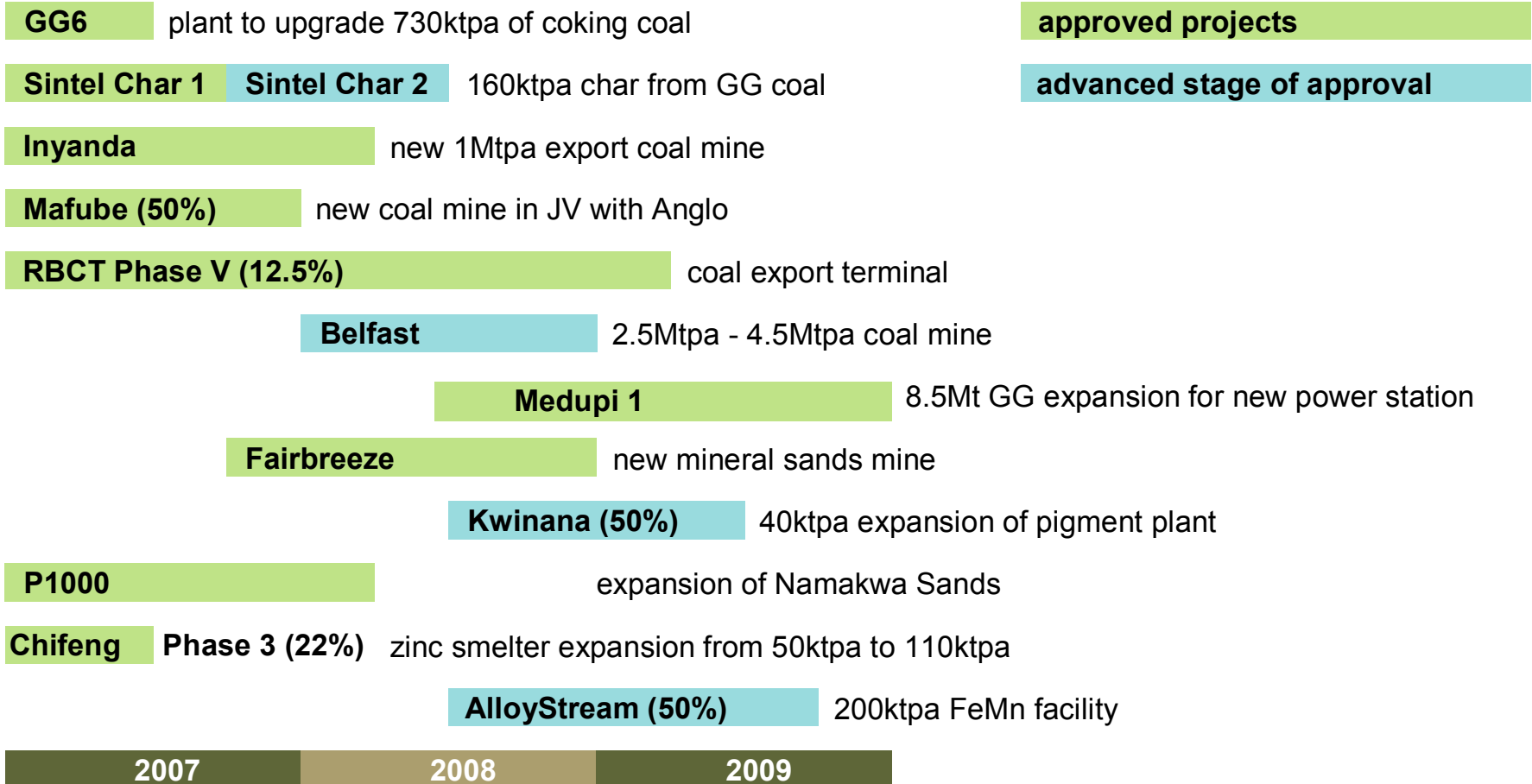
Revenue R8 814m



- Earnings not comparable to previous results
- Unaudited supplementaries exclude all non-recurring items, and restate financials as if the transaction took place on 1 January 2006
- Headline earnings per share: 285 cents



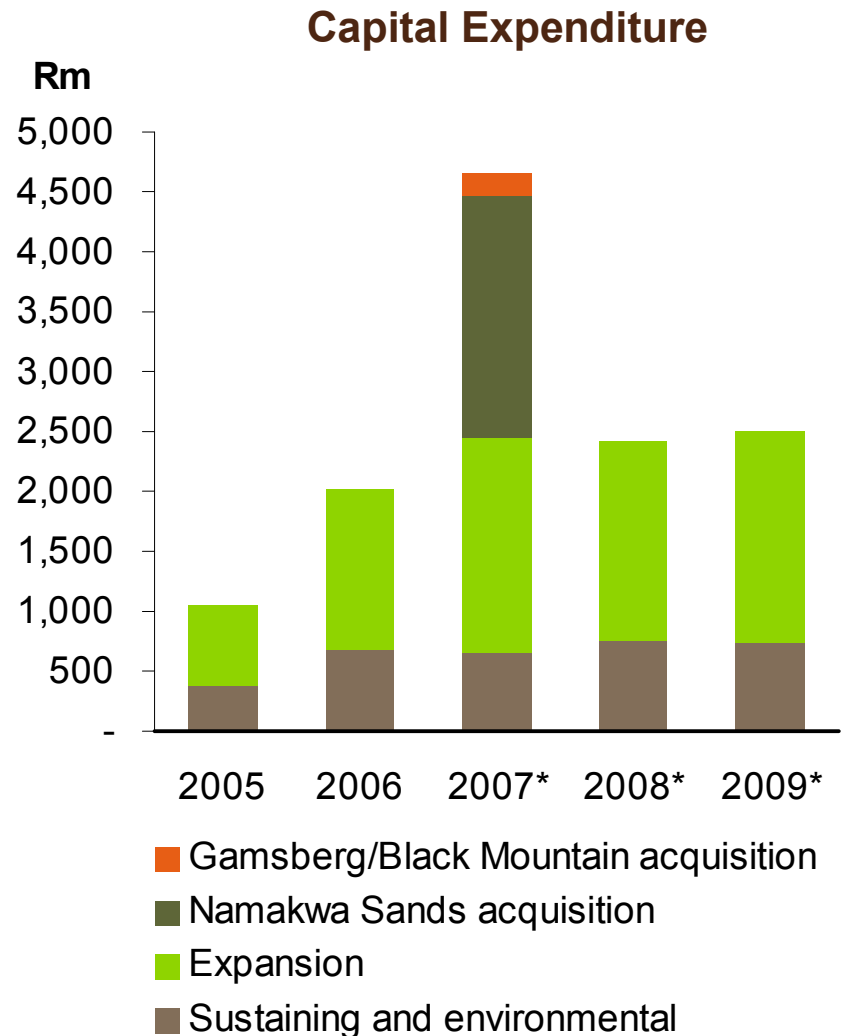
A robust project pipeline





We are a growing company

- Acquisition of Namakwa Sands (100%) and 26% interest in Black Mountain/Gamsberg approved (ca. R2,3 billion)
- Numerous growth projects under construction or at advanced stage of evaluation and approval
- High level of capital expenditure for the next few years



* Estimates, including approved projects



Investment proposition and market reaction





Investment proposition

“The Largest Empowerment Resources Company with Unique Diversified Portfolio”

Major Diversified Resources Company

- Unique and well balanced portfolio including coal, mineral sands, base metals, industrial minerals and iron ore
- Geographic diversification across South Africa, Australia and China plus potential growth projects in other countries
- One of the top 40 companies on the JSE by market capitalisation. Financially and strategically positioned to take advantage of internal and external growth opportunities in the mining sector in South Africa, the rest of Africa and globally

4th Largest South African Coal Producer

- Unique opportunity for global and local investors to gain exposure to the strong domestic coal market (inland and Eskom) and the export market
- 42Mtpa growing to 75Mtpa by 2014 which could make Exxaro South Africa’s largest coal producer
- Strong oil prices and the anticipated demand for thermal coal to meet projected increases in global electricity consumption provide case for sustainable, high coal prices
- Eskom to spend ZAR150bn on building new generation capacity as the country is due to run out of excess peaking and base load capacity by 2007 and 2010 respectively, and electricity demand growing at 1,200MW per annum for the next 20 years

Diversified Mineral Sands Portfolio

- Third largest TiO₂ feedstock producer in the world with the most diverse portfolio of mineral sands products in the industry
- Development projects across Namakwa Sands, KZN Sands and Tiwest JV will support continued profitability and growth
- Lag effect of mineral sand commodities and strong zircon price should support future growth

Attractive Exposure to Iron Ore and Zinc Markets

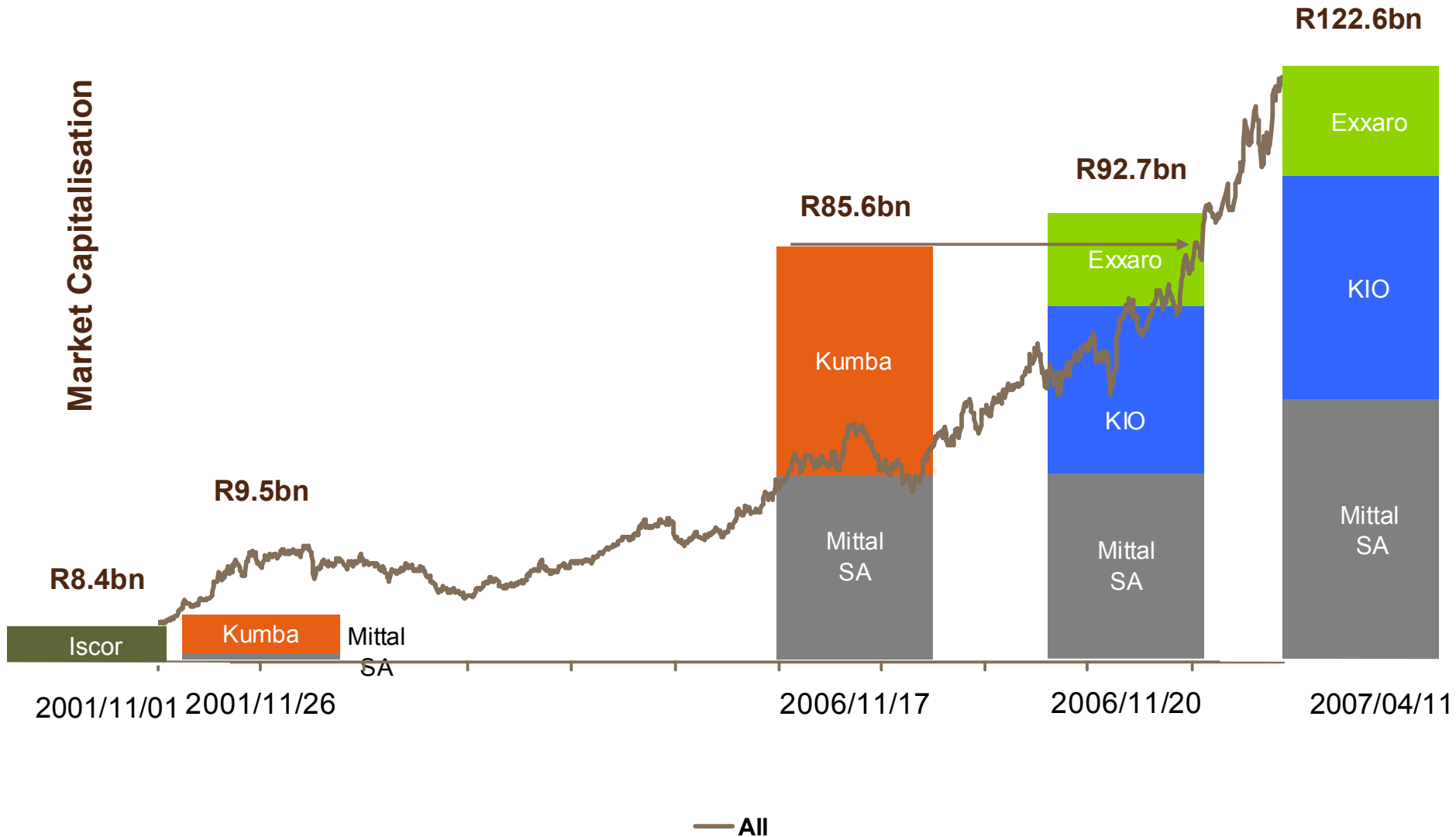
- Continued growth and profitability of iron ore will provide steady cash flows to Exxaro through shareholding in SIOC
- Rising zinc prices have strengthened the base metals business with longer-term off-take and participation in Black Mountain/Gamsberg providing further growth prospects

Management Expertise/ Empowerment Credentials

- Proven, diversified management team
- Strategically positioned to play a key role in further BEE consolidation
- BEE likely to be an increasingly important requirement in securing Eskom contracts, RBCT allocations and other acquisition opportunities



Have we been successful?





**What is keeping us
busy at the moment?**





Current priorities

- **Merger between Kumba and Eyesizwe - bedding down the organisation:**
 - **Organisation structure and staffing**
 - **People issues:**
 - **Induction into the new organisation**
 - **providing stability and certainty to individual employees, eg. conditions of service**
 - **performance management contracting**
 - **Effective functioning of the new board of directors**
 - **Prepare for the merger between Exxaro and Namakwa Sands**
- **Providing direction:**
 - **Purpose (vision/mission) and values**
 - **Corporate strategy**
 - **Commodity business strategies**
 - **Management style/Leadership**





Current priorities (continued)

- **Maintaining stability of operations**
- **Identify synergies and harvest “low hanging fruit”**
- **Deliver on near-term growth initiatives**
- **Conversion of rights under the Mineral and Petroleum Resources Development Act, including approval by the Minister of the Namakwa Sands change of ownership (section 11 requirement)**
- **Orderly/effective transition from CEO to CEO designate**
- **“Demystifying” Exxaro for the analyst and investment communities**
- **Building the Exxaro brand**





Reflections on Leadership: Perspectives from the Exxaro Story





High performance lies in alignment

Domain of Management

Logic & Reason

WINDS



Strategies Goals Processes
Plans Structures Systems

Culture habits tradition

Attitudes

Prejudice

Ideologies

Thinking patterns

Feelings

Beliefs

Values

CURRENTS

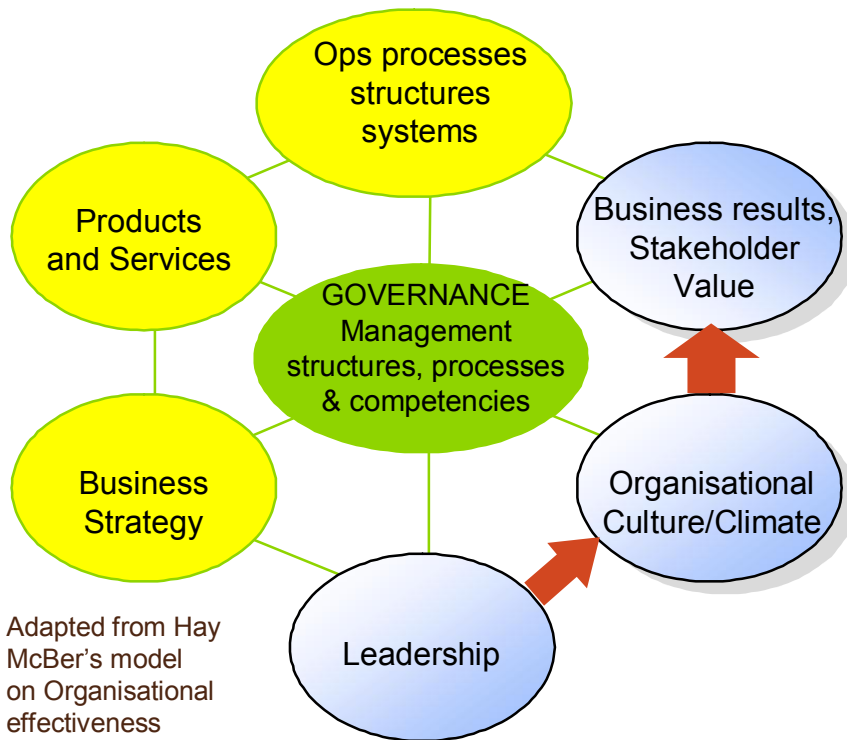
Spirit & Emotion

Domain of Leadership



A HOLISTIC & INTEGRATED APPROACH TO PERFORMANCE EXCELLENCE

To become a HPO, an organisation needs to follow a holistic & totally integrated approach, addressing all aspects of the business.



Adapted from Hay
McBer's model
on Organisational
effectiveness

Leadership MUST play all three roles

- **Visionary**
- **Professional Manager**
- **People/team champion & Coach**



Perspectives from the Exxaro story

- **Strategy:**
 - Mostly not neat and per the book, but nevertheless very important
 - Process often more important than the outcome to achieve alignment
 - Sometimes has to deal with short-term issues as well as the longer term positioning of the company
- **Management style is too important to be left to chance. It needs to be consciously developed and depends, amongst others, on factors such as:**
 - Broad organisation structure and philosophy
 - Leadership attitude
 - How strongly the organisation is “regulated”
 - Vision, mission and values
 - Training and development



Perspectives from the Exxaro story (continued)

- **Broad organisation structure and philosophy in Exxaro:**
 - **Strategic control model - at the centre we control only:**
 - corporate strategy and alignment of commodity business strategies
 - overall governance and governance principles
 - the cash and investments
 - high-level talent and the process of talent development
 - the brand of the company
 - (For the rest the largest degree of autonomy is allowed, but maximum use of shared services is encouraged)
 - **Multi-stakeholder approach – fundamental and important shift from the shareholder-dominant approach:**
 - Everyone is important and deserves a place in the sun
 - Aligned with triple-bottom line reporting and with good corporate governance practice



Perspectives from the Exxaro story (continued)

- **Leadership attitude:**
 - We have the people to do what needs to be done
 - We work more through the skill of people than through rules and regulations
 - Work on the presumption of competence - unexpressed competence appears the same as incompetence
 - Organisations often structure and have rules primarily to defend against incompetence
 - Personal and collective productivity stem from allowing people to express their competence
 - We need the skills of everyone in the organisation
 - Leaders should be the prime hurdle removers and should be prepared to relinquish personal control to colleagues and subordinates
 - It must be fun to work



Perspectives from the Exxaro story (continued)

- **“Regulation” in organisations**
 - Is necessary but should be balanced – need for compliance vs. creativity
 - Rely on the competence/skill of people and allow them freedom and power to make decisions on the basis of their knowledge and contribution, rather than rank
 - Prerequisites for this to work:
 - Clear direction for the company (vision, mission, strategy)
 - Robust set of values
 - Rules that do exist are meaningful and should be strictly adhered to
 - Intensive training and development of all employees
 - Accountability on the part of employees for their actions, but
 - It is also OK to make bone fide mistakes
- **Collaboration, commitment and creativity go hand-in-hand in successful organisations but the foundation is put in place by the people who manage the organisation by providing the context within work is to be done and to create conditions which give the organisation its basic character**

(Acknowledgement: Jay Hall: The Competence Connection)



Finally: The “ifs” and “buts” ...

- Although we enjoyed great success in Kumba and Eyesizwe, the jury is still out on Exxaro, *but*
- We have made a good start, *and*
- Thus far the market seems to be going along with our value proposition and way of doing things, *but*
- We will have to deliver, *and if we get it right*
- Exxaro could become a role model for other South African companies in terms of ownership, employment and the way of doing business

SO:

Watch this space and wish us luck!

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THANK YOU