

Chairman's statement



It is a great pleasure and privilege for me to be at the helm of Kumba Iron Ore at the beginning of what, I am certain, will be a distinguished future as a truly great mining company.

PL Zim
Chairman

The assets of Kumba Iron Ore in terms of its physical and human resources are well tested and are of an exceptional quality. Its governance structures and principles, business ethics and value system are soundly based and well established. Its board includes exceptional performers with impeccable credentials from business and the mining industry. Its broad-based empowerment status also emphasises its stature as a responsible corporate citizen.

I believe that these factors taken together promise an exceptionally fruitful future for the group.

I am proud to have played a part in designing and implementing what we regard as one of the most innovative and sustainable BEE transactions in South Africa, designed to benefit all stakeholders and the country as a whole.

The complex process of managing the separation of assets of the former Kumba Resources Limited (Kumba Resources) was handled remarkably efficiently.

From a very early stage in the unbundling process the teams were fortunate in being able to assemble and put in place a competent, representative board, which not only guided management through the process but also set up the governance systems under which it now operates. These systems were designed to ensure that the group is at all times compliant with the provisions of the *King II Report on Corporate Governance*. They were put in place

from the group's inception and in essence carried on the corporate governance principles and practices that prevailed in Kumba Resources, amended where appropriate by the practices of the Anglo American plc group.

Broadly, I am confident that Kumba Iron Ore in its new format will continue to be a role model in legislative compliance and governance standards. It will continue to be a responsible custodian of its natural resources and will remain a significant contributor to the nation's prosperity and growth.

Challenges in the mining industry

I know that the wisdom of the directors of both Kumba Resources and Kumba Iron Ore in the unbundling will be rewarded amply by the outstanding performance of our company in the future.

I make this prediction in the knowledge that the company has performed excellently since 2001, in virtually unchanged operational format, as the iron ore division of Kumba Resources. Driven by our competent and experienced management and employees, we increased production volumes by 9 percent over the five years to 2006.

We are now poised to better this performance by seeking lasting solutions to the transport challenges that have sometimes affected our results. We are working in close partnership with Transnet, and I am happy to say that various infrastructural challenges are being

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continued

tackled resolutely by the responsible ministry. We are delighted with the increased urgency apparent in Transnet's activities in recent times, particularly in respect of capacity expansions on the Sishen-Saldanha export line.

There are other regulatory and legislative matters that could affect growth and investment in the iron ore sector, notably the conversion and registration of mining rights and prospecting rights under the *Minerals and Petroleum Resources Development Act*. Here again, together with the mining industry in general, we are working closely with the authorities concerned and are engaged in constant dialogue with them.

It is pleasing to report that the Minister of Minerals and Energy took vigorous action in the latter part of 2006 and succeeded in reducing the backlog in respect of the matters concerned.

A particular challenge to Kumba Iron Ore is the provisions of the *Mineral and Petroleum Resources Royalty Bill*. In essence, this draft legislation seeks to impose differential royalty rates on refined and unrefined iron ore, ostensibly to encourage beneficiation, which already forms part of our existing operations. However, we remain in close contact with the South African Treasury and continue to put forward our case that an alternative scheme would be preferable and would have a less debilitating effect on iron ore exports. This is a concerted and coordinated effort with other industry players and notably the Chamber of Mines. A decision is awaited towards the end of the third quarter in 2007.

Outlook and thanks

I have pleasure in recording sincere thanks to the board, both collectively and individually, on behalf of our company for their vision and attention to detail in putting us on course so early in the life of the company as an independent entity.

This annual report deals comprehensively with the global iron market, its dynamics and the prospects for Kumba Iron Ore, especially in the light of its expansion programme which is set out in more detail on page 31 – 32. I can add that our board of directors is determined to contribute wherever possible in delivering the growth opportunities that lie ahead.

I am confident that our employees will carve out a great future for this group and I thank them all for their individual contributions in the lead-up to our creation as a separate company.



Lazarus Zim



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