

Marketing, sales and logistics

Fundamentally the iron ore industry remains attractive, and steady growth in demand of some 25 percent from current levels is forecast over the next twenty years.

The global iron ore market in 2006 continued on the strong growth trend of the past few years, increasing by 13,9 percent to 1 750 Mt. The seaborne trade market for iron ore increased by 8,3 percent to 717 Mt. The continued tight supply situation of iron ore was reflected by the 19 percent benchmark price increase for 2006/2007. The annual international price adjustment cycle runs from 1 April to 31 March the following year.

Global crude steel production for 2006 was 1 201 Mt, an increase of 8,8 percent over 2005. China's share of world steel output increased from 31 percent in 2005 to 34 percent in 2006, entrenching its position as the world's largest producer of steel.

Prospects for continued real growth in global steel demand remain positive in 2007, with the strongest growth again expected to come from China, where an increase of 8 to 10 percent in steel consumption is expected. Continued consolidation in the global steel industry and increasing steel exports from China will be important industry trends in 2007.

Kumba Iron Ore currently has a 3,1 percent share of the seaborne iron ore trade, and 9,9 percent of the seaborne lump ore market. This is based on exports of 21,5 Mtpa from Sishen Mine. The three largest iron ore producers in 2006 of seaborne iron ore trade are CVRD (235 Mt) from Brazil as well as, Rio Tinto (168 Mt) and BHP-Billiton (115 Mt) from Australia.

The seaborne market is responsible for a large proportion (more than 89 percent) of the group's revenues. Strong growth in steel demand, primarily from China, and increasing supplier consolidation over the past decade have driven the recent record price increases for seaborne iron ore.

Continuing strong economic growth in China and the concomitant development of its steel industry are expected to fuel healthy demand and growth until approximately 2025. China is expected to represent 60 percent of demand for seaborne iron ore by 2011, whilst further growth in CIS and South America in the medium term – as well as India and other developing markets in the longer term – should sustain this growth.

Short- to medium-term scrap shortages should further ensure the growth in demand for iron ore and support attractive iron ore prices.

During 2007 Kumba Iron Ore plans to, in addition to its normal tonnages, place in the market some 2 Mt additional product from the SEP ramp-up, which is a new product with slightly lower iron content. The group has received letters of intent for the products, totalling an additional 13 Mtpa which is the production capacity of the SEP.

Logistics

Kumba Iron Ore is working closely with Transnet, which is currently engaged in expanding the capacity of the Sishen-Saldanha export channel to give effect to an agreement, concluded in February 2005, to increase allocated rail tonnages to 35 Mtpa. Sishen Mine is concurrently ramping up its production (inclusive of the SEP) to ensure that increased output is achieved at about the same time that Transnet completes its expansion works towards the second half of 2007.

Since logistics issues play an important part in Kumba Iron Ore's performance, the group continues its close cooperation with Transnet across all matters of common interest. Discussions commenced on the next phase of capacity expansion, amounting to a further 9 Mtpa rail allocation, in order to carry planned production from the envisioned Sishen South Mine to Saldanha. It is anticipated that an agreement will be concluded towards mid-2007.

The Sishen-Saldanha export channel is performing well again after an unfortunate occurrence in September 2006 when a shiploader at the port broke down and Kumba Iron Ore lost nineteen days of exports, affecting sales for the year. Mine production, however, continued during the period of loader downtime and some 2 Mt of product was stockpiled at Saldanha before the end of the year. It is planned that by August 2007 two shiploaders will be in operation, in time for the increased production linked to the SEP Project. An independent study on the operational shiploader, and the new design of the one that failed, confirmed the structural integrity of these machines.

Marketing, sales and logistics continued

All stakeholders involved are working on increasing efficiency in the logistics system and will continue to improve the outbound logistics chain to increase flexibility and reliability, whilst removing non-value adding activities. The target is to improve efficiencies, eliminate waste and maintain customer satisfaction.

In line with Kumba Iron Ore's customer focus the Marketing division is constantly investigating value adding opportunities in the product portfolio. This is done in close cooperation with customers and Sishen Mine whilst keeping in mind future growth projects.

The off-take by Mittal in 2006 was lower than expected due to logistical reasons. Normal off-take in the order of 9 Mtpa is expected to be resumed during 2007.





The stakeholders are working on increasing efficiency in the logistics system and will continue to apply lean principles to the outbound logistics chain.

Ship loading – Saldanha Port Operations