

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2006

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation of financial results

The principal accounting policies of the group and company and the disclosures made in the annual financial statements conform to International Financial Reporting Standards effective for the group's financial year and the requirements of the South African Companies Act.

The financial statements are prepared using the historical cost convention except for specific financial instruments as set out in the notes to the financial statements, which are stated at fair value, as well as biological assets which are carried at fair value.

Basis of consolidation

The group annual financial statements present the consolidated financial position and changes therein, operating results and cash flow information of the company and its subsidiaries.

Subsidiaries are those entities in which the group has an interest of more than one half of the voting rights or the power to exercise control so as to obtain benefits from their activities.

Operating results of subsidiaries acquired or disposed of are included in the group statements from the effective dates on which control is obtained or excluded from such statements as from the date on which control ceases.

All inter-company transactions, balances and unrealised profits and losses between group companies are eliminated on consolidation. Where necessary, accounting policies for subsidiaries are changed to ensure consistency with the policies adopted by the group. If it is not practical to change the policies, the appropriate adjustments are made on consolidation to ensure consistency within the group.

The company carries its investments in subsidiaries at cost less accumulated impairment losses.

The results of special purpose entities that, in substance, are controlled by the group, are consolidated.

The purchase method of accounting is used to account for acquired subsidiaries.

On acquisition date, fair values are attributed to the identifiable assets, liabilities and contingent liabilities. Minority interest at acquisition date is determined as the minority shareholders' proportionate share of the fair value of the net assets of subsidiaries acquired.

Fair values of the identifiable assets and liabilities are determined by reference to market values of those or similar items, where available, or by discounting expected future cash flows using the discount rate to present values.

The cost of acquisition is the fair value of the group's contribution to the business combination in the form of assets transferred, shares issued or liabilities assumed at the acquisition date plus costs directly attributable to the acquisition.

Transactions and minority interests

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Associates

The equity method of accounting is used for an investment over which the group exercises significant influence, but not control or joint control, and normally owns between 20 percent and 50 percent of the voting equity. Associates are equity accounted from the effective dates of acquisition to the effective dates of disposal.

Results of associates are equity accounted from their most recent audited annual financial statements or unaudited interim financial statements. Any losses of associates are brought to account in the consolidated financial statements until the investment in such associates is written down to a nominal amount. Thereafter, losses are accounted for only in so far as the group is committed to providing financial support to such associates.

The total carrying values of investments in associates represent the cost of each investment, including the carrying value of goodwill, the share of post-acquisition retained earnings, any other movements in reserves and any long-term debt interests which, in substance, form part of the group's net investment. The carrying values of associates are reviewed on a regular basis and if an impairment in value has occurred, it is written off in the period in which those circumstances are identified. The group's share of an associate's losses in excess of its interest in that associate is not recognised unless the group has an obligation to fund such losses.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2006

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Associates (continued)

Goodwill on the acquisition of associates is treated in accordance with the group's accounting policy for goodwill.

The company carries its investments in associates at cost less accumulated impairment losses.

Joint ventures

A joint venture is an entity jointly controlled by the group and one or more other venturers in terms of a contractual arrangement requiring unanimous consent for strategic financial and operating decisions. It may involve a corporation, partnership or other entity in which the group has an interest.

The group's share of the assets, liabilities, income, expenditure and cash flows of jointly controlled entities are accounted for using the proportionate consolidation method. Proportionate consolidation combines the group's share of the results of the joint venture entity on a line-by-line basis with similar items in the group's financial statements.

Where necessary, the results of joint ventures are restated to ensure consistency with group policies. Unrealised profits and losses are eliminated.

The company carries its investments in joint ventures at cost less accumulated impairment losses.

Goodwill on the acquisition of joint ventures is treated in accordance with the group's accounting policy for goodwill.

Goodwill

Goodwill is reflected at cost less accumulated impairment losses, if any. It represents the excess of the cost of a business combination over the fair value of the group's share of the identifiable net assets of the acquired entity at the date of acquisition. Goodwill is assessed for impairment on an annual basis. Once any impairment has occurred on a specific goodwill item, the impairment will not be reversed in future periods.

Negative goodwill arising on a business combination represents the fair value of the net identifiable assets and contingent liabilities of the entity acquired over the cost of acquisition, the negative goodwill is recognised immediately in the income statement.

The gain or loss on disposal of an entity includes the balance of goodwill relating to the entity.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Impairment of goodwill

Goodwill arising on business combinations is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination and represents the lowest level at which goodwill is monitored by the group's board of directors for internal management purposes, but not larger than a segment. The recoverable amount of the CGU or the group of CGUs to which goodwill has been allocated is tested for impairment annually on a consistent date during each financial year, or when such events or changes in circumstances indicate that it may be impaired. Any impairment is recognised immediately in the income statement. A recognised impairment loss is not reversed.

Property, plant and equipment

Land and extensions under construction are stated at cost less accumulated impairment and are not depreciated. Buildings, including certain non-mining residential buildings and all other items of property, plant and equipment, are reflected at cost less accumulated depreciation and accumulated impairment losses.

The cost of self-constructed assets includes expenditure on materials, direct labour and an allocated proportion of project overheads. Cost also includes the estimated costs of dismantling and removing the assets and site rehabilitation costs to the extent that they relate to the construction of the asset as well as gains or losses on qualifying cash flow hedges attributable to that asset.

Depreciation is charged on a systematic basis over the estimated useful lives of the assets after taking into account the estimated residual value of the assets. Useful life is either the period of time over which the asset is expected to be used or the number of production or similar units expected to be obtained from the use of the asset.

Items of property, plant and equipment are capitalised in components where components have a different useful life to the main item of property, plant and equipment to which the component can be logically assigned. Expenditure incurred to replace or modify a significant component of plant is capitalised and any remaining book value of the component replaced is written off in the income statement.

The estimated useful lives of assets and their residual values are reassessed annually, with any changes in such accounting estimates being adjusted in the current financial year of reassessment and applied prospectively.

The estimated useful lives of items of property, plant and equipment are:

○ Buildings and infrastructure (including residential buildings)	5 – 25 years
○ Mineral properties	10 – 25 years
○ Fixed plant and equipment	4 – 25 years
○ Mobile equipment, built-in process computers, underground mining equipment and reconditionable spares	2 – 25 years
○ Loose tools and computer equipment	5 years
○ Development costs	5 – 6 years
○ Site preparation, mining development and exploration	5 – 25 years

Maintenance and repairs which neither materially add to the value of assets nor appreciably prolong their useful lives are charged against income. Direct attributable expenses relating to mining and other major capital projects, site preparations and exploration are capitalised until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent that these are recognised as a provision.

Financing costs directly incurred for the construction or acquisition of qualifying assets are capitalised at interest rates relating to loans specifically raised for that purpose, or at the average borrowing rate where the general pool of borrowings is utilised. Capitalisation of borrowing costs ceases when 40% of design capacity has been reached.

Directly attributable costs associated with the acquisition, development and installation of certain software are capitalised. Such assets are depreciated using the amortisation methods and periods applicable to computer equipment.

Surpluses and deficits on the disposal of property, plant and equipment are taken to profit or loss.

Leases

Finance leases

Leases where the group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised as property, plant and equipment at the lower of fair value or the present value of the minimum lease payments at the inception of the lease with an equivalent amount being stated as a finance lease liability as part of debt.

The capitalised amount is depreciated over the asset's useful life or the lease period if shorter than the asset's useful life. Lease

payments are allocated between capital repayments and borrowing costs using the effective interest rate method.

The land and buildings elements of a lease are considered separately for the purpose of lease classification.

Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged against income on the straight-line basis over the period of the lease.

Biological assets

Biological assets are measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs and any change in value is included in the net profit or loss for the period in which it arises. Livestock is measured at its fair value less estimated point-of-sale costs, fair value being determined by the age and size of the animals and market prices. Market price is determined on the basis that the animal is sold to be slaughtered. Livestock held for sale are classified as consumable biological assets. Game is measured at their fair value less estimated point-of-sale costs, fair value being determined at market price. Market price is determined using auction selling prices achieved for live game. Game held for sale is classified as consumable biological assets.

Intangible assets

An intangible asset is recognised at cost if it is probable that future economic benefits will flow to the enterprise. Amortisation is charged on a systematic basis over the estimated useful lives of the intangible asset. Intangible assets are carried at cost less accumulated amortisation and impairment charges.

The estimated maximum useful life of patents, licences and franchises is 20 years. Subsequent expenditure on capitalised intangible assets is capitalised only if it increases the future benefits embodied in the specific asset to which it relates.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2006

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Tangible assets (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment is recognised immediately as an expense.

Where subsequently an impairment reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset (or CGU) in prior years. A reversal of an impairment is recognised as income immediately.

Research, development and exploration costs

Research, development and exploration costs are charged against income until they result in projects that are evaluated as being technically or commercially feasible, the group has sufficient resources to complete development and can demonstrate how the asset will generate future economic benefits, in which event these development costs are capitalised and amortised on the straight-line basis over the estimated useful life of the project or asset. The carrying amounts are reviewed at each balance sheet date to determine whether there is any indication of impairment.

Financial instruments

Measurement

Initially, financial instruments are measured at fair value, including transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

Investments

Investments other than marketable securities, which are calculated by reference to stock exchange quoted prices at the close of business on the balance sheet date, are carried at fair value. Gains and losses are recognised in profit or loss.

Trade and other receivables

Trade and other receivables originated by the group are stated at amortised cost less impairment. Estimates are made for impairments based on a review of all outstanding amounts at year-end. Irrecoverable amounts are written off during the year in which they are identified.

Cash and cash equivalents

Cash and cash equivalents are stated at carrying value which is deemed to be fair value. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the group unless otherwise stated.

Bank overdrafts are included within current liabilities on the balance sheet.

Financial liabilities

Financial liabilities are recognised at amortised cost, namely original debt less principal payments and amortisations, except for derivatives which are measured at fair value. If a financial liability is designated as a hedged item, it is subject to measurement under hedge accounting provisions.

Derivative instruments

Derivative instruments are measured at fair value.

Gains and losses on subsequent measurement are recognised as follows:

- Gains and losses arising from a change in the fair value of financial instruments that are not part of a hedging relationship are included in net profit or loss for the period in which they arise.
- Gains and losses from measuring fair value hedging instruments, including fair value hedges for foreign currency denominated transactions, are recognised immediately in net profit or loss.
- The effective portion of gains and losses from remeasuring cash flow hedging instruments, including cash flow hedges for forecast foreign currency denominated transactions and for interest rate swaps, are recognised directly in equity initially. Should the hedged firm commitment or forecast transaction result subsequently in the recognition of an asset or a liability, then the cumulative amount recognised in equity is adjusted against the initial measurement of the asset or liability. For other cash flow hedges, the cumulative amount recognised in equity is included in net profit or loss during the period when the commitment or forecast transaction affects profit or loss.
- When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative unrealised gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Offset

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

Inventories

Inventories are valued at the lower of cost, determined on the moving average basis, and net realisable value. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and fixed production overheads, but excludes interest charges. Fixed production overheads are allocated on the basis of normal capacity. Consumable stores are capitalised to the balance sheet and expensed to the income statement as they are utilised.

Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Write-downs to net realisable value and inventory losses are expensed in the period in which the write-downs or losses occur.

Foreign currencies

Items included in the financial results of each entity are measured using the functional currency of that entity. The consolidated financial results are presented in rand, which is Kumba Iron Ore's functional and presentation currency.

Transactions and balances

Transactions denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the transaction date. Monetary items denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Gains or losses arising on translation are credited to or charged against income.

Foreign entities

The financial statements of foreign entities are translated into South African rand as follows:

- Assets and liabilities at rates of exchange ruling at balance sheet date.
- Income, expenditure and cash flow items at weighted average rates.
- Goodwill and fair value adjustments arising on acquisition at rates of exchange ruling at balance sheet date.

All resulting exchange differences are reflected as part of shareholders' equity. On disposal, such translation differences are recognised in the income statement as part of the cumulative gain or loss on disposal.

Foreign currency hedges

Foreign currency hedges are dealt with in the financial instruments accounting policy.

Revenue

Revenue is measured at the fair value of the consideration received or receivable, which excludes value-added tax, discounts, volume rebates and sales between group companies, and represents the gross value of goods invoiced.

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Export revenues are recorded according to the relevant sales terms, when the risks and rewards of ownership are transferred.

Revenue arising from services and royalties is recognised on the accrual basis in accordance with the substance of the relevant agreements, based on the percentage of completion.

Revenue from the operation of bulk ships is recognised on the proportionate basis where voyages have not terminated at year-end.

Interest and dividend income

Interest is recognised on the time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the group.

Dividends are recognised when the right to receive payment is established.

Stripping costs

Stripping costs that are incurred in advance of mining in certain areas are expensed as the costs are incurred.

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money, and where appropriate, the risk specific to the liability.

Decommissioning and environmental rehabilitation

Provision is made for environmental rehabilitation costs where either a legal or a constructive obligation arises as a result of past events. Estimates are based upon costs that are regularly reviewed and adjusted as appropriate for new circumstances.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2006

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Decommissioning and environmental rehabilitation *(continued)*

Where a provision is made for dismantling and site restoration costs, an asset of similar initial value is raised and depreciated in accordance with the group's accounting policy for property, plant and equipment.

Annual contributions are made to the group's Environmental Rehabilitation Trust Fund, created in accordance with statutory requirements, to provide for the funding of the estimated cost of pollution control and rehabilitation during, and at the end of, the life of mines. The assets and liabilities of the Environmental Rehabilitation Trust Fund are consolidated.

Expenditure on plant and equipment for pollution control is capitalised and depreciated over the useful lives of the assets, whilst the cost of ongoing current programmes to prevent and control pollution and to rehabilitate the environment, is charged against income as incurred.

Taxation

The tax expense represents the sum of the current tax charge and the movement in deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or an asset or liability in a transaction (other than in a business combination) that affects neither the tax profit nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries, joint ventures, and associates, except where the group is able to control the reversal of the temporary difference and it is

probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also taken directly to equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the group intends, and is able to, settle its current tax assets and liabilities on a net basis.

STC is recognised as part of the current tax charge in the income statement when the related dividend is declared. When dividends received in the current year can be offset against future dividend payments to reduce the STC liability, a deferred tax asset is recognised to the extent of the future reduction in STC.

Employee benefits

Post-employment benefits

The group provides defined contribution funds for the benefit of employees, the assets of which are held in separate funds. These funds are funded by payments from employees and the group. The group's contribution to the defined contribution fund is charged to the income statement in the year to which it relates.

The group is also a participating employer in two closed defined benefit funds for its pensioner members who retired before the unbundling in 2001. Kumba Iron Ore does not, however, provide employee benefits in defined benefit funds for any of its current employees.

Statutory actuarial valuations on the defined benefit plans are performed every three years. Interim valuations are also performed on an annual basis. Valuations are performed on a date which coincides with the balance sheet date. Consideration is given to any event that could impact the funds up to balance sheet date. The net surplus or deficit in the benefit obligation is the difference between the present value of the funded obligation and the fair value of plan assets. No actuarial surplus is recognised as the group's ability to assess the future economic

benefit is uncertain. Actuarial losses, if any, are recognised in income as and when they arise.

The group does not provide guarantees in respect of returns in the defined contribution funds.

Short and long-term benefits

The cost of all short-term employee benefits, such as salaries, bonuses, housing allowances, medical and other contributions, is recognised during the period in which the employee renders the related service.

The vesting portion of long-term benefits is recognised and provided for at balance sheet date, based on the current total cost to the company.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The group recognises termination benefits when it has demonstrated its commitment to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If the benefits are due more than twelve months after balance sheet date, they are discounted to present value.

Equity compensation benefits

Senior management, including executive directors, have been granted share options. Grants are based on existing ordinary shares and can be purchased or the purchase can be deferred. The option or purchase price equals market price on the date preceding the date of the grant.

When the options are exercised:

- they can either be purchased and, if vesting according to the rules of the scheme, recorded in share capital and share premium at the amount of the option price; or
- payment can be deferred, resulting in no increase in share capital or share premium until paid for and vesting according to the rules of the scheme.

The fair value of the options granted to senior management, including executive directors, is determined at grant date using a suitable option pricing model and is expensed over the vesting period of the options with a corresponding increase in equity.

Dividends

Dividends paid are recognised by the company when the dividend is declared. These dividends are recorded and disclosed as dividends paid in the statement of changes in equity. Dividends proposed or declared subsequently to the year-end are not recognised at the balance sheet date, but are disclosed in the notes to the financial statements.

Discontinuing operations and non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use.

This condition is regarded as met only when it is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets are classified as held for sale from the date these conditions are met and are measured at the lower of their carrying amount and their fair value less costs to sell. Any resulting impairment is reported through the income statement.

On classification as held for sale the assets are no longer depreciated. Comparative amounts are not adjusted.

Discontinued operations are classified as held for sale and are either a separate major line of business or geographical area of operations that have been sold or are part of a single coordinated plan to be disposed of, or is a subsidiary acquired exclusively with a view to sale. Once an operation has been identified as discontinued, or is reclassified as continuing, the comparative information is restated.

Segment reporting

The business of the group represents the iron ore division that has been unbundled from Kumba Resources and as such is managed as a single business unit. The basis of segment reporting is illustrative of the internal structure used for management reporting.

Comparatives

The group was formed with the completion of the unbundling transaction with effect from 1 November 2006. Before this date, the holding company was dormant, with issued share capital to the value of R100 and a loan account of the same amount. No comparative information is therefore presented in these financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2006

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Judgements made by management

The following judgements, apart from those involving estimates (as mentioned below), have been made by management in the process of applying the group's accounting policies that have the most significant effect on the amounts recognised in the financial statements:

- The identification of special purpose entities controlled by the group which must be consolidated.
- In applying *IFRS 2, Share-based payments*, management had to make certain judgements in respect of the fair value models to be used in determining the various share-based arrangements in respect of employees and special purpose entities, as well as the variable elements used in these models.

Key estimates made by management in applying accounting policies

The following key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- Estimates made in determining the present obligation of environmental and decommissioning provisions, which includes the discount rate used in determining the present value of environmental and decommissioning provisions.
- Estimates made in determining the probability of future taxable income, thereby justifying the recognition of a deferred tax asset.

	GROUP 2006 Rm	COMPANY 2006 Rm
2. REVENUE		
Sale of iron ore	2 171	–
	2 171	–
3. OPERATING EXPENSES/(INCOME)		
Cost by type		
– Raw materials and consumables	99	–
– Staff costs		
– salaries and wages	127	3
– share-based payments	32	–
– pension and medical costs	14	–
– General charges	377	–
– Net profit on sale of investment	–	(458)
– Railage and transport	166	–
– Repairs and maintenance	75	–
– Energy	8	–
– Depreciation of property, plant and equipment	43	–
– Movement in inventories	71	–
– Shipping charter hire costs	479	–
– Own work capitalised	(7)	–
– Cost recoveries	4	(2)
– Sublease received	(1)	–
	1 487	(457)
Cost by function		
– Costs of goods sold/services rendered	1 316	(457)
– Selling and distribution costs	172	–
– Sublease rent received	(1)	–
	1 487	(457)
The above costs are stated after including:		
Depreciation and amortisation		
– mineral properties	4	–
– buildings and infrastructure	2	–
– machinery, plant and equipment	34	–
– site preparation, mining development, exploration and rehabilitation	3	–
Reconditionable spares usage	2	–
Share-based payments	32	–
Consultancy fees	26	–
Operating lease rental expenses		
– property	2	–
– equipment	10	–
Operating sublease rentals received		
– property	(1)	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2006

	GROUP 2006 Rm	COMPANY 2006 Rm
3. OPERATING EXPENSES/(INCOME) (continued)		
Net profit on disposal or scrapping of property, plant and equipment	(4)	–
Net profit on disposal of investment	–	(458)
Sale of 3% of the issued shares in SIOC which Kumba Iron Ore sold to the SIOC community development trust as part of the conditions of the Kumba Resources Empowerment transaction	153	–
Auditors' remuneration		
– audit fees	3	–
– other services	–	–
Fair value gain on financial assets	(5)	–
Net realised losses on currency exchange differences	54	–
Net unrealised losses on currency exchange differences	31	–
Net realised gains on the revaluation of derivative instruments	(36)	–
Directors' emoluments (refer to the directors' remuneration report on page 66)		
– executive directors		
– remuneration received as directors of the company		1
– bonuses and cash incentives		1
– non-executive directors		
– remuneration received as directors of the company		1
4. NET FINANCING COSTS		
Interest expense and loan costs	46	–
Interest income	(7)	–
Net interest expense	39	–
Interest adjustment on non-current provisions (note 20)	(3)	–
	36	–
5. TAXATION		
Charge to income		
South African normal taxation		
– Current	210	–
– Deferred	20	–
Capital gains taxation	39	39
Total	269	39
Reconciliation of taxation rates	%	%
Taxation as a percentage of profit before taxation	41,5	(8,5)
Taxation effect of		
– Capital profits	(6,0)	8,5
– Receipts/accruals of a capital nature	0,1	29,0
– Disallowable expenditure ¹	(8,3)	–
– Exempt income	1,7	–
– Capital expenditure/losses	0,2	–
– Translation difference	(0,4)	–
– Exchange rate difference on tax rate	0,1	–
– Other	0,1	–
Standard tax rate	29,0	29,0

¹ Included in disallowable expenditure is an IFRS 2 charge of R153 million relating to the sale of a 3% interest in SIOC to the SIOC Community Share Trust as part of the conditions of the Kumba Resources empowerment transaction.

	GROUP	COMPANY
	2006	2006
	Rm	Rm
6. MINORITY INTEREST		
The minority interest holders' share in the result for the period is effectively 30,3%, compared to the actual minority interest shareholding of 26%. An accounting charge of R153 million arises from the sale of 3% of the issued shares in SIOC which Kumba Iron Ore sold to the SIOC community development trust as part of the conditions of the Kumba Resources empowerment transaction. In terms of IFRS 2 the difference between the offer price and the fair value is charged to the income statement and is not shared by minority shareholders.		
Reconciliation of profit for the year to attributable profit to minorities:		
Profit for the year	379	–
Add back:		
IFRS 2 charge	153	–
CGT on the sale of 3% of the issued shares in SIOC which Kumba Iron Ore sold to the SIOC Community Development Trust	41	–
Attributable profits	573	–
Attributable to minorities – 20%	115	–
The difference between the 20% minority interest accounted for on consolidation as shown above and the actual minority interest shareholding of 26% relates to the SPEs (SIOC community development trust and SIOC ESPS) which are consolidated into Kumba Iron Ore's results in accordance with the company's accounting policies.		
7. EARNINGS PER SHARE		
Basic earnings per share		
Basic earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue during the year.		
Net income attributable to ordinary shareholders (Rm)	264	–
Weighted average number of ordinary shares in issue ('000)	313 594	–
Basic earnings per share (cents)	84	–
Fully diluted earnings per share		
For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares as a result of share options granted to employees under the share option schemes and warrants in issue. A calculation is performed to determine the number of shares that could have been acquired at fair value, determined as the average annual market share price of the company's shares based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and warrants.		
Weighted average number of ordinary shares in issue ('000)	313 594	–
Adjustments for share options ('000)	5 409	–
Weighted average number of ordinary shares for fully diluted earnings per share ('000)	319 003	–
Diluted earnings per share (cents)	83	–
Headline earnings per share (cents)		
The calculation of headline earnings per share is based on the basic earnings per share calculation adjusted for the following items:		
Net income attributable to ordinary shareholders	264	–
Net profit on disposal or scrapping of property, plant and equipment	(4)	–
Transfer to minority interest	1	–
Taxation effect of adjustments	1	–
Headline earnings	262	–
Basic headline earnings per share (cents)	83	–
Fully diluted headline earnings per share (cents)	82	–
8. DIVIDEND		
No interim dividend was declared during 2006.		
A maiden dividend in respect of the year ended 31 December 2006 of 80c per share, amounting to a total dividend of R251 million, was declared by the board of directors on 14 February 2007. These financial statements do not reflect this dividend payable.		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2006

GROUP	Land and extensions Rm	Mineral properties Rm	Residential land and buildings Rm	Buildings and infrastructure Rm	Machinery, plant and equipment Rm	Site preparation, mining, development, exploration and re-habilitation Rm	Extensions under construction Rm	Total Rm
9. PROPERTY, PLANT AND EQUIPMENT 2006								
Cost								
At beginning of year	–	–	–	–	–	–	–	–
Acquisition of subsidiary	35	621	46	218	2 732	325	1 544	5 521
Additions	1	–	–	4	96	–	410	511
Changes in decommissioning assets	–	–	–	–	(1)	–	–	(1)
Disposals	–	–	–	–	(7)	–	–	(7)
At 31 December 2006	36	621	46	222	2 820	325	1 954	6 024
Accumulated depreciation								
At beginning of year	–	–	–	–	–	–	–	–
Acquisition of subsidiary	–	132	37	95	1 594	264	–	2 122
Depreciation charges	–	4	–	2	34	3	–	43
Disposals	–	–	–	–	(5)	–	–	(5)
At 31 December 2006	–	136	37	97	1 623	267	–	2 160
Net carrying amount at 31 December 2006	36	485	9	125	1 197	58	1 954	3 864

The replacement value of assets for insurance purposes amounts to R5,9 billion.

A register of land and buildings is available for inspection at the registered office of the company.

	Livestock Rm	Game Rm	Total Rm
10. BIOLOGICAL ASSETS			
The fair value of biological assets comprises of mature animals on 31 December 2006	3	4	7
Livestock consists of cattle, sheep and goats.			
Game consists of giraffe, ostrich and a variety of antelope.			

	GROUP 2006 R'000	COMPANY 2006 R'000
11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES		
Associated companies		
– Listed	–	–
– Unlisted	50	–
	50	–
Joint ventures (Unlisted)		
– Incorporated	337	–
Total	387	–

Refer to annexure 2 for detail of associated companies and joint ventures and directors' valuations.

GROUP	Associate companies			Joint ventures		
	Investments	Loans	Total	Investments	Loans	Total
	2006 R'000	2006 R'000	2006 R'000	2006 R'000	2006 R'000	2006 R'000
2006						
At beginning of year	–	–	–	–	–	–
Interests acquired	50	–	50	–	337	337
Net share of results*	–	–	–	–	–	–
– share of results after taxation	–	–	–	–	–	–
– share of exceptional items	–	–	–	–	–	–
– share of goodwill	–	–	–	–	–	–
Dividends paid	–	–	–	–	–	–
Exchange difference adjustments	–	–	–	–	–	–
Impairment charges	–	–	–	–	–	–
At end of year (annexure 2)	50	–	50	–	337	337

* Income from equity accounted investments, as disclosed in the income statement, amounted to R nil.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2006

	GROUP 2006 Rm	COMPANY 2006 Rm
12. INVESTMENTS IN SUBSIDIARIES		
Shares at cost less impairment losses	–	3
Aggregate attributable after tax profits and losses of subsidiaries:		
– Profits	419	–
– Losses	–	–
13. LOANS TO SUBSIDIARY COMPANIES		
Non-interest-bearing loans	–	14
	–	14
The above loan is to Sishen Iron Ore Company (Pty) Limited. It is interest free with no fixed terms of repayment.		
14. FINANCIAL ASSETS		
Environmental Rehabilitation Trust Asset	147	–
Long-term receivables	3	–
Investments (refer to annexure 2)	–	458
	150	458
Maturity profile of financial assets		
0 – 12 months	–	–
1 – 2 years	3	–
3 – 5 years	45	–
> 5 years	102	458
Total	150	458
15. INVENTORIES		
Finished products	285	–
Work-in-progress	353	–
Plant spares and stores	108	–
Merchandise	3	–
	749	–
16. TRADE AND OTHER RECEIVABLES		
Trade receivables	905	–
Other receivables	100	2
	1 005	2

	GROUP 2006 Rm	COMPANY 2006 Rm
16. TRADE AND OTHER RECEIVABLES <i>(continued)</i>		
The fair values of trade and other receivables are not materially different to the carrying values presented.		
Trade credit risk exposure per geographical area		
South Africa	148	–
Europe	262	–
Asia	495	–
	905	–

All credit risk exposures relate to the steel manufacturing industry.

17. SHARE CAPITAL AND SHARE PREMIUM

Share capital

Authorised

500 000 000 shares of 1 cent each	5	5
-----------------------------------	---	---

Issued

313 594 471 ordinary shares of 1 cent each	3	3
--	---	---

Share premium	–	–
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The unissued shares are under the control of the directors of the company until the next annual general meeting.

18. INTEREST-BEARING BORROWINGS

Non-current borrowings

Summary of loans by financial year of redemption

2007	34	–
------	----	---

2009	2 840	–
------	-------	---

Total non-current borrowings	2 874	–
-------------------------------------	-------	---

Current portion included in current borrowings	(34)	–
--	------	---

Total non-current borrowings	2 840	–
-------------------------------------	-------	---

Current borrowings

Short-term borrowings	1 145	–
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Current portion of non-current borrowings	34	–
---	----	---

Total short-term borrowings	1 179	–
------------------------------------	-------	---

Total debt	4 019	–
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Details of loans are included in annexure 1.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2006

	GROUP 2006 Rm	COMPANY 2006 Rm
19. DEFERRED INCOME TAX LIABILITIES		
The movement on the deferred taxation account is as follows:		
At beginning of year	–	–
Acquisition of subsidiary	535	–
Non-distributable reserve movement	(70)	–
Income statement charge	–	–
– current (note 5)	20	–
At end of year	485	–
Comprising:		
Deferred taxation		
Environmental rehabilitation asset	43	–
Leave pay accrual	(20)	–
Property, plant and equipment	576	–
Decommissioning provision	(12)	–
Restoration provision	(102)	–
Total deferred taxation liability	485	–

	Environmental rehabilitation Rm	Decommissioning Rm	Total Rm
20. NON-CURRENT PROVISIONS			
Group			
For the year ended 31 December 2006			
At beginning of year	–	–	–
Charge to income statement	–	–	–
Interest adjustment	(3)	–	(3)
Provisions capitalised to property, plant and equipment	–	(2)	(2)
Acquisition of subsidiary	115	42	157
At end of year	112	40	152
Current portion included in current liabilities	–	–	–
Total non-current provisions	112	40	152

Environmental rehabilitation

Provision is made for environmental rehabilitation costs where either a legal or constructive obligation is recognised as a result of past events. Estimates are based upon costs that are reviewed regularly and adjusted as appropriate for new circumstances.

Decommissioning

The decommissioning provision relates to decommissioning of property, plant and equipment where either a legal or constructive obligation is recognised as a result of past events. Estimates are based upon costs that are regularly reviewed and adjusted as appropriate for new circumstances.

	GROUP 2006 Rm	COMPANY 2006 Rm
20. NON-CURRENT PROVISIONS <i>(continued)</i>		
Funding of environmental rehabilitation and decommissioning		
Contributions towards the cost of mine closure are also made to the Kumba Rehabilitation Trust Fund and the balance of the fund amounted to R150 million at year-end. This amount is included in the financial assets of the group. Cash flows will take place when the mines are rehabilitated.		
21. TRADE AND OTHER PAYABLES		
Trade payables	413	–
Other payables	71	2
Leave pay accrual	67	1
Derivative instruments	4	–
	555	3
Fair value of trade and other payables	555	3
22. CONTINGENT LIABILITIES		
Contingent liabilities at balance sheet date, not otherwise provided for in these annual financial statements, arising from:		
Bank guarantee for low cost housing development	10	–
Guarantee for environmental trust closure liability	13	–
	23	–
These include the group's share of contingent liabilities of associates and joint ventures of R nil. These contingent liabilities have no tax impact. The timing and occurrence of any possible outflows are uncertain.		
23. COMMITMENTS		
Capital commitments		
Capital expenditure contracted for plant and equipment	2 477	–
Capital expenditure authorised for plant and equipment, but not contracted	3 176	–
Capital expenditure will be financed from available cash resources, funds generated from operations and available borrowing facilities.		
Capital expenditure contracted relating to captive mine (Thabazimbi), which will be financed by Mittal	1	–
Capital expenditure authorised but not contracted relating to captive mine (Thabazimbi), which will be financed by Mittal	2	–
Operating lease commitments		
The future minimum lease payments under non-cancellable operating leases are as follows:		
Property		
– Less than one year	5	–
– More than one year and less than five years	19	–
– More than five years	4	–
Total	28	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2006

	GROUP 2006 Rm	COMPANY 2006 Rm
23. COMMITMENTS <i>(continued)</i>		
Plant and equipment		
– Less than one year	21	–
– More than one year and less than five years	7	–
– More than five years	–	–
Total	28	–
Total operating lease commitments	56	–
24. NOTES TO THE CASH FLOW STATEMENT		
24.1 Cash retained from operations		
Net operating income	684	457
Adjusted for non-cash movements		
– Depreciation	43	–
– Foreign currency revaluations and fair value adjustments	26	–
– Reconditionable spares usage	2	–
– Proceeds on disposal of property, plant and equipment	(6)	–
– Net profit on disposal of investments	–	(458)
– Share-based payment expenses	32	
– IFRS 2 charge of R153 million relating to the sale of a 3% interest in SIOC to the SIOC community development trust as part of the conditions of the Kumba Resources empowerment transaction	153	
Cash generated/(utilised) by operations	934	(1)
Working capital movements		
– decrease in inventories	27	–
– increase in trade and other receivables	(159)	(2)
– decrease in financial assets	2	–
– (decrease)/increase in trade and other payables	(415)	3
	389	–
24.2 Net financing costs		
Net financing costs as per income statement	(36)	–
Less: Interest adjustment on non-current provisions	(3)	–
	(39)	–
24.3 Normal taxation paid		
At acquisition of subsidiary	(358)	–
Amounts charged to the income statements	(249)	(39)
Arising on translation of foreign entities	4	–
Amounts unpaid at end of year	603	39
	–	–
24.4 Investments to maintain operations		
Replacement of property, plant and equipment	(85)	–
Reconditionable spares	(2)	–
	(87)	–

	GROUP 2006 Rm	COMPANY 2006 Rm
24. NOTES TO THE CASH FLOW STATEMENT <i>(continued)</i>		
24.5 Increase in cash resources on acquisition of a controlling interest in subsidiaries		
Details of assets acquired are as follows:		
Fair value of assets acquired	374	–
Less: Cash paid on acquisition of subsidiaries	(3)	–
Transferred to pre-acquisition reserves	371	–
The assets and liabilities arising from the acquisition are as follows:		
Property, plant and equipment	3 399	–
Investments in joint ventures and associates	1	–
Financial assets	150	–
Biological assets	4	–
Cash and cash equivalents	403	–
Inventories	785	–
Trade and other receivables	912	–
Non-current provisions	(157)	–
Deferred taxation	(535)	–
Receiver of Revenue	(358)	–
Trade and other payables	(1 023)	–
Short-term borrowings	(3 114)	–
Minority	(93)	–
Fair value of net assets	374	–
Total purchase consideration	(3)	–
Less: Cash and cash equivalents in subsidiary acquired	403	–
Net cash inflow	400	–
No fair value adjustments were made to the book value of net assets acquired and no plant closure or other restructuring provisions were created.		
24.6 Foreign currency translation reserve		
At acquisition of subsidiary	31	–
Closing balance	23	–
Movement	(8)	–
Unrealised losses in relation to foreign transactions	(5)	–
Revaluation of foreign assets to spot rate in subsidiary	221	–
Less: Arising on translation of foreign entities:	(243)	–
– inventories	(6)	–
– accounts receivable	(68)	–
– financial assets	–	–
– derivatives	–	–
– accounts payable	55	–
– utilisation of provisions	–	–
– taxation paid	3	–
– investments acquired	(1)	–
– long-term loans	260	–
	(35)	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2006

25. FINANCIAL INSTRUMENTS

SIOC provides a treasury function to the group, coordinates access to domestic and international financial markets, and manages the financial risks relating to the group's operations.

The group's objective in using financial instruments is to reduce the uncertainty over future cash flows arising from movements in currency, and interest rates. Currency and interest rate exposure is managed within board-approved policies and guidelines, which restrict the use of derivatives to the hedging of specific underlying currency, and interest rate exposures. Compliance with group policies and exposure limits is reviewed by the internal auditors on a continuous basis and they report the results to the board's audit and risk committee.

25.1 Foreign currency risk management

The group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising FECs.

The group maintains a fully covered exchange rate position in respect of foreign currency borrowings and imported capital equipment resulting in these exposures being fully converted to rand. Trade-related import exposures are managed through the use of natural hedges arising from export revenue as well as through FECs. Trade-related export exposures are hedged using FECs with specific focus on short-term receivables.

There were no material FECs that relate to specific balance sheet items which do not form part of a hedging relationship or for which hedge accounting was not applied at 31 December 2006.

The group has entered into certain forward exchange contracts. Details of the contracts at 31 December 2006 are as follows:

FOREIGN CURRENCY	Foreign amount	Market-related value	Contract value	Recognised fair value in equity
2006	m	Rm	Rm	Rm
Imports				
United States dollar – FECs	10	70	72	2
Euro – FECs	4	40	42	2
Japanese yen – FECs	262	15	17	2
Great British pounds – FECs	–	2	2	–

25.2 Interest rate risk management

The group is exposed to interest rate risk as it borrows and deposits funds at floating interest rates. The risk is managed by taking into account future interest rate expectations.

A proportion of term borrowings were entered into at floating interest rates in anticipation of a decrease in the interest rate cycle. The interest rate profile is summarised below:

	1 – 6 months	7 – 12 months	Beyond 1 year	Total borrowings
At 31 December 2006	Rm	Rm	Rm	Rm
Term borrowings	511	668	2 840	4 019
Percentage of total borrowings (%)	13	16	71	100

25. FINANCIAL INSTRUMENTS *(continued)*

Group

25.3 Maturity profile of financial instruments

The maturity profiles of financial assets and liabilities at 31 December 2006 are summarised as follows:

(The derivative instruments reflect the contract amounts)

At 31 December 2006	0 – 12 months Rm	1 – 2 years Rm	3 – 5 years Rm	>5 years Rm	Total Rm
Assets					
Financial assets	–	3	45	102	150
Cash and cash equivalents	1 094	–	–	–	1 094
Trade and other receivables	1 005	–	–	–	1 005
Liabilities					
Interest-bearing borrowings	1 179	–	2 840	–	4 019
Trade and other payables	555	–	–	–	555
Total	365	3	(2 795)	102	(2 325)
Percentage profile (%)	(16)	–	120	(4)	100
Derivative instruments at 31 December 2006 (included in the above)					
Recognised transactions					
– Buy	–	–	–	–	–
– Sell	–	–	–	–	–
Forecast transactions					
– Buy	133	–	–	–	133
– Sell	–	–	–	–	–

25.4 Fair value of financial instruments

At 31 December 2006 the carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximated their fair values due to the short-term maturities of these assets and liabilities.

	Carrying value 2006 Rm	Fair value 2006 Rm
<i>Assets</i>		
Financial assets	150	150
Cash and cash equivalents	1 094	1 094
Trade and other receivables	1 005	1 005
<i>Liabilities</i>		
Non-current interest-bearing borrowings	2 840	2 840
Current interest-bearing borrowings	1 179	1 179
Trade and other payables	555	555

Liabilities

The fair value of long and medium-term borrowings is calculated using quoted prices, or where such prices are not available, discounted cash flow analyses, using the applicable yield curve for the duration of the borrowing.

Derivative instruments

These comprise forward exchange contracts. The fair value of derivative instruments, included in hedging assets and liabilities is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analyses, using the applicable yield curve for the duration of the instruments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2006

31 Dec
2006
Rm

25. FINANCIAL INSTRUMENTS (continued)

Group

25.4 Fair value of financial instruments (continued)

At 31 December 2006, the negative R4 million fair value of instruments was made up of:

– Favourable contracts	–
– Unfavourable contracts	(4)

When an anticipated future transaction has been hedged and the underlying position has not been recognised in the financial statements, any change in fair value of the hedging instrument is recognised directly in equity.

25.5 Credit risk management

Credit risk relates to potential exposure on cash and cash equivalents, investments, trade receivables and hedged positions. The group limits its counterparty exposure arising from money market and derivative instruments by dealing only with well-established financial institutions of high credit standing. The group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the board annually.

Trade debtors consist of a number of customers with whom SIOC has longstanding relationships. A large number of term supply arrangements exist with such clients resulting in limited credit exposure. Where dictated by customer credit worthiness or country risk, assessment is further mitigated through a combination of confirmed letters of credit and credit risk insurance.

Detail of the credit risk exposure above 5%

	2006 %
By industry	
Manufacturing (including structural metal)	100
By geographical area	
South Africa	16
Asia	55
Europe	29
	100

26. BUSINESS COMBINATION

As part of the unbundling of Kumba Resources Limited, the Kumba Iron Ore group was formed in November 2006. The unbundling of Kumba Iron Ore was effected by way of a distribution of Kumba Iron Ore distribution shares (in specie) in terms of section 90 of the Companies Act and in accordance with section 46 of the Income Tax Act in the ratio of one Kumba Iron Ore distribution share for every one Kumba Resources Limited share held at the close of business on the record date.

The result of the unbundling was that Kumba Iron Ore acquired a 74% shareholding in SIOC. The remaining shares in SIOC are held by Exxaro (20%), SIOC community development trust (3%) and SIOC employee share purchase scheme (ESPS) (3%). As part of the various agreements put in place to arrange the sale of the shares to the SIOC community development trust and the SIOC ESPS, Kumba Iron Ore has accepted terms which resulted in the majority of the risk not being transferred away from Kumba Iron Ore. Based on accounting rules governing the accounting for SPEs, it is required that Kumba Iron Ore consolidate these entities and therefore the total liabilities and the total assets are accounted for on the consolidated balance sheet, as these entities are deemed to form part of the Kumba Iron Ore group.

For accounting purposes, the unbundling transaction was treated as a transaction between commonly controlled entities, and therefore all assets and liabilities were included at their respective book values at the unbundling date.

The aggregate book values of the acquisition are set out in note 24.5

27. RELATED PARTY TRANSACTIONS

During the year the company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase transactions with associated companies and joint ventures. These transactions occurred under terms that are no less favourable than those arranged with third parties.

Associates and joint ventures

Details of investments in associates and joint ventures are disclosed in note 11 and annexure 2, whilst income is disclosed in note 11.

The group purchased goods and services to the value of R7 million from, and sold goods to to value of R nil to associates and joint ventures.

The outstanding balances at year-end were as follows:

- Included in trade and other payables (note 21) R1 million
- Included in cash and cash equivalents R31 million

Subsidiaries

Details of income from, and investments in, subsidiaries are disclosed in notes 12 and 13 respectively, and in annexure 3.

Special purpose entities

The group has an interest in the following special purpose entities which are consolidated unless otherwise indicated:

Entity	Nature of business
SIOC Community Development Trust	Investment vehicle
Sishen Iron Ore Employee Share Purchase Scheme	Investment vehicle
Kumba Iron Ore Rehabilitation Trust	Trust fund for mine closure

Directors

Details relating to directors' emoluments and shareholdings (including options) in the company are disclosed in the directors' remuneration report (see page 68).

Senior employees

Details relating to option and share transactions are disclosed in note 29.

Key management personnel

For the group, the directors of Kumba Iron Ore and the major subsidiary SIOC, as well as the people listed below have been identified as being key management personnel.

- Peet Kotze
- Francois Louw
- Christo van Loggerenberg
- Fergus Marupen
- Aart van den Brink

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2006

	Rm
27. RELATED PARTY TRANSACTIONS <i>(continued)</i>	
Compensation to key management personnel	
Short-term employee benefits	5
Post-employment pension/provident and medical benefits	–
Termination benefits	–
Share-based payments – related expenses	2
Total compensation to key management personnel	7

Anglo group

Kumba Iron Ore's direct majority shareholder and parent is Anglo American Capital Limited, with the ultimate beneficial shareholder being Anglo American plc group.

The Kumba Iron Ore group purchased goods and services to the value of R1 million from, and sold goods to the value of R1 million to fellow subsidiaries of the Anglo American plc group.

The outstanding balances at year-end were as follows:

- Included in trade and other payables (note 21) R1 million

Shareholders

The principal shareholders of the company are detailed in the shareholders' analysis schedule on pages 43 – 45 of this annual report.

Contingent liabilities

Details are disclosed in note 22.

28. SEGMENT REPORTING

The group's primary reporting format is business segments. As there is only one business segment, being mining, extraction and production of iron ore, the relevant disclosure has been given in the financial statements. The secondary reporting format is geographical segments by origin. The business is managed and organised according to the nature of the products and services provided, with the segment representing a strategic business unit that offers a specific product and service to a specific market.

The group's geographical segments are determined by location of the group's assets and operations.

Secondary reporting format – geographical segments

The following table presents revenue and certain asset information regarding the group's geographical segments for the year ended 31 December 2006:

	South Africa Rm	Europe Rm	Asia Rm	Other Rm	Total Rm
Revenue					
– Sales to external customers	178	507	1 486	–	2 171
Other segment information					
Segment assets	5 679	324	814	52	6 869
Segment liabilities	5 745	55	14	–	5 814
Capital expenditure	511	–	–	–	511

28. SEGMENT REPORTING *(continued)*

Total segment revenue, which excludes value-added tax and sales between group companies, represents the gross value of goods invoiced. Export revenue is recorded according to the relevant sales terms, when the risks and rewards of ownership are transferred.

Total segment revenue further includes operating revenues that can be allocated directly and reasonably to the segments. Segment revenue includes sales made between segments. These sales are made on a commercial basis.

Segment assets and liabilities include operating assets, investments in associates and joint ventures and liabilities which can be directly allocated on a reasonable basis.

29. EQUITY COMPENSATION BENEFITS

Employee benefits

Retirement fund

Independent funds provide retirement and other benefits for all permanent employees, retired employees and their dependants. At the end of 2006 the following funds were in existence:

- Mittal Steel South Africa Pensioenfonds (formerly the Iscor Pension Fund), operating as a defined benefit fund. This fund is now closed to new entrants.
- Iscor Retirement Fund, operating as a defined benefit fund. This fund is now closed to new entrants.
- Kumba Iron Ore Selector Pension Fund and Kumba Iron Ore Selector Provident Fund, both operating as defined contribution funds.
- Iscor Employees' Provident Fund, operating as a defined contribution fund.

In compliance with the Pension Fund Act, after the unbundling of Kumba Resources Limited, members' funds of SIOC employees will be transferred to the newly created funds from the Kumba Iron Ore Pension and Provident Fund, once all regulatory approvals have been obtained.

Members pay contributions of 7%, and an employers' contribution of 10% is expensed as incurred.

All funds are governed by the South African Pension Funds Act of 1956.

Defined contribution funds

Membership of each fund and employer contributions to each fund were as follows:

	Working members (number) 2006	Employer contributions Rm 2006
Kumba Iron Ore Selector Funds	1 559	4,3
Iscor Employees' Provident Fund	3 122	3,7
Other funds	7	–
Total	4 688	8,0

Due to the nature of these funds, the accrued liabilities definition equates to the total assets under control of these funds.

Defined benefit funds

Statutory actuarial valuations are performed at intervals of not more than three years. The valuations are performed as at the financial period-end of the funds in question, which is 31 December. At the last statutory valuation of the funds (Mittal Steel South Africa Pension Fund at 31 December 2004, the Iscor Retirement Fund at 31 December 2005 and at the interim valuation of the Mittal Steel South Africa Pension Fund at 31 December 2005), the actuaries were of the opinion that the funds were adequately funded. The surplus apportionment schemes of both the defined benefit funds have been recorded as a nil scheme by the Registrar of Pension Funds.

KUMBA IRON ORE NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2006

29. EQUITY COMPENSATION BENEFITS (continued)

Funded status

The funded status of the two defined retirement benefit funds (Mittal Steel South Africa Pensioenfonds and Iscor Retirement Fund) for the members and pensioners of Mittal Steel, and pensioners of Kumba Resources, as at their last year of valuation were as follows:

	Mittal Steel South Africa Pensioenfonds 2005 Rm	Iscor Retirement Fund 2005 Rm
Fair value of plan assets	6 593	350
Present value of funded obligation	(6 593)	(350)
Net assets	–	–
Surplus not recognised	–	–
Unrecognised actuarial losses	–	–
Net liability as per balance sheet	–	–

The pension plan assets consist primarily of equity (local and offshore), interest-bearing stock and property.

The actual return on the assets in the Mittal Steel South Africa Pensioenfonds at 31 December 2005 amounted to R579 million and in the Iscor Retirement Fund to R137 million at 31 December 2005.

Principal actuarial assumptions (expressed as weighted averages) at 31 December 2005 and 2004 respectively were as follows:

	Mittal Steel South Pensioenfonds		Iscor Retirement Fund – Statutory valuation
	Interim valuation 2005 (%)	Statutory valuation 2005 (%)	2005 (%)
Pre-retirement discount rate	7,5	10	10
Post-retirement discount rate	5,0	5,0	4,5
Expected real after tax return on funds assets	3,5	3,5	n/a
Future general and merit salary increases (excluding merit increases according to age)	8,5	8,5	n/a

Future pension increases were allowed to the extent that the investment return exceeded the post-retirement discount rate.

Medical fund

The group contributes to defined benefit medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R6,5 million. Kumba Iron Ore has no obligation to fund post-retirement medical aid contributions for current or retired employees.

Equity compensation benefits

The shareholders of Kumba Resources approved on 2 November 2006 an empowerment transaction which in essence entailed:

- Kumba Iron Ore owning a 74 percent interest in SIOC. Kumba Iron Ore was listed on 20 November 2006. Kumba Resources was renamed Exxaro Resources on 27 November 2006.
- As SIOC was a wholly owned subsidiary of Kumba Resources, senior employees and directors of SIOC were eligible to participate in the Kumba Resources management share incentive plans.
- Kumba Resources' management share incentive plans consisted of the Management Share Option Scheme.

29. EQUITY COMPENSATION BENEFITS *(continued)*

Management Share Option Scheme

In order to place, as far as possible, all participants in the Kumba Resources Management Share Option Scheme in the position they would have been, if they were shareholders of Kumba Resources at the time of the implementation of the empowerment transaction, the schemes continued in Kumba Iron Ore and in Exxaro, subject to certain amendments that were made to the Kumba Resources Management Share Option of which a replica was adopted by Kumba Iron Ore. The senior employees and directors of SIOC that participated in the Kumba Resources' management share incentive plans prior to the implementation of the empowerment transaction subsequently became participants of the Kumba Iron Ore management share incentive plans.

Under the Management Share Option Scheme, share options in Kumba Resources were granted, at the grant date market value, to eligible employees. These options were treated as equity settled share-based payments. Although some options granted in 2005 could be exercised in multiples of 33,3 percent per year over a three-year period commencing on the first anniversary of the offer date, most of the options granted could only be exercised over five years commencing on the first anniversary of the offer date. The vesting periods of these options were as follows:

- 10 percent after first anniversary of offer date
- Additional 20 percent after second anniversary of offer date
- Additional 20 percent after third anniversary of offer date
- Additional 25 percent after fourth anniversary of offer date
- Additional 25 percent after fifth anniversary of offer date

The options not exercised lapsed by the seventh anniversary of the offer date.

Participants of the Kumba Iron Ore and Exxaro Management Share Option schemes exchanged each of their Kumba Resources options for a Kumba Iron Ore option and an Exxaro option. The strike price of each Kumba Resources option was apportioned between the Kumba Iron Ore option and the Exxaro option with reference to the volume weighted average price (VWAP) at which Kumba Iron Ore and Exxaro traded for the first 22 days post the implementation of the empowerment transaction. The VWAP was calculated as 67,19 percent for Kumba Iron Ore and 32,81 percent for Exxaro.

The Kumba Iron Ore employees' options in the Kumba Management Share Option schemes are released on the dates that the original options would have vested. Their options relating to Exxaro are released on the earlier of:

- the date that the original options would have vested; or
- 24 months from the date of unbundling.

The Exxaro options lapse 42 months after the date of unbundling.

Participants in the Kumba Iron Ore and Exxaro Management Deferred Purchase schemes who have been granted deferred purchase shares received an Exxaro share and a Kumba Iron Ore share for every deferred purchase share held under the original purchase agreement.

The above change was treated as a modification. The services received were measured at the grant date fair value of the original equity instruments granted. Any incremental increase in the fair value of the equity instruments granted is recognised over the revised vesting period.

The fair value of the options issued under the Management Share Option Scheme was determined immediately before and after the modification using the Black-Scholes option pricing model. The weighted average incremental fair value granted per option as a result of the modification amounted to R13,42.

KUMBA IRON ORE NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2006

	Before unbundling	After unbundling	
		Kumba	Exxaro
29. EQUITY COMPENSATION BENEFITS (continued)			
The inputs to the model are as follows:			
Share price – rands	142	110	49
Weighted average exercise price – rands	58,78	39,49	19,28
Annualised expected volatility (%) ¹	37,90	37,90	37,90
Expected option life (years)	4,34	4,34	3,08
Expected dividend yield (%)	4	4	4
Risk-free interest rate (%)	8,24	8,24	8,24
Expected employee attrition	9,42	9,42	9,42

¹ The expected volatility was determined based on statistical analysis of daily share prices of Kumba Resources Limited over the last five years.

Details of the option schemes are:

	Options December 2006 Million
Outstanding at beginning of the year	–
Issued	8,7
Exercised	(0,1)
Outstanding at end of the year	8,6

Details of issues during the period are as follows:

Share options held by Kumba Iron Ore employees in Kumba	Expiry date	Exercise price R	Options outstanding Rm
	2007	7,89	10
	2008	17,37 – 18,85	424
	2009	7,85 – 32,99	265
	2010	14,15 – 25,20	56
	2011	20,69 – 28,89	386
	2012	30,91 – 67,26	487
	2013	68,53 – 97,74	630
			2 258

Total proceeds if options are exercised immediately are R97,7 million.

Share options held by Kumba Iron Ore employees in Exxaro	Expiry date	Exercise price R	Options outstanding Rm
	2007	3,86	10
	2008	8,48 – 9,20	424
	2009	3,84 – 16,11	265
	2010	6,91 – 47,73	1 560
			2 259

Total proceeds if options are exercised immediately are R47,7 million.

29. EQUITY COMPENSATION BENEFITS *(continued)*

Directors' interests in share options

For details, refer to the directors' remuneration report on page 66.

Phantom Share Scheme

As a result of restrictions related to the empowerment transaction of Kumba Resources, certain executives and senior managers who participated in the Kumba Resources Management Share Option Scheme have not been able to receive certain grants of options which would have been made in the ordinary course of operations. The human resources and remuneration committee of Kumba Resources consequently awarded "phantom options" to the affected participants within the following framework:

- Awards of "phantom options" were made, with the grant price, vesting dates and lapse periods set to be the same as those of the options awardable.
- On exercise, the participants are paid (in cash) the difference between the market price (volume weighted average price on the day preceding exercise) and the grant price.
- All other rules and arrangements in respect of the amended Kumba Resources Management Share Option Scheme were replicated for the Kumba Resources Phantom Share Option Scheme.
- The Kumba Resources Phantom Share Option Scheme was replicated for Kumba Iron Ore. The senior employees and directors of SIOC that participated in the Kumba Resources Phantom Option Scheme prior to the implementation of the empowerment transaction subsequently became participants of the Kumba Iron Ore Phantom Share Option Scheme.
- Exxaro and Kumba Iron Ore entered into an agreement that facilitated the settlement of obligations towards participants of the Phantom Option Schemes.

The accounting costs of the Kumba Iron Ore Phantom Option Scheme require recognition under IFRS 2 using the treatment for cash settled share-based payments. This treatment is more volatile than that of the conventional (equity settled) scheme and the liability will require marking to market at each reporting period.

Phantom share options held by Kumba Iron Ore employees in Kumba Iron Ore:

Offer date	Offer price R	Options outstanding R'000
22/04/05	59,8	16,800
		16,800

Phantom share options held by Exxaro employees in Kumba Iron Ore:

Offer date	Offer price R	Options outstanding R'000
22/04/05	59,8	102,970
06/01/05	64,8	29,470
07/01/05	56	16,420
12/01/05	100,1	51,240
		200,100

No new options have been granted to management or senior staff following unbundling.