

Operational review

We are entrenching our status as a preferred supplier of premium products and a diversified portfolio through a careful and dynamic balance between optimal use of our resources and cost-effective operating processes.

This is a challenge best met by continual innovation and a firm commitment to meeting the changing needs of our global customers.

Market review

The iron ore market has had five years of annual benchmark price rises, with increases of 71.5% and 19.5% in the years ending in March 2004 and 2005 respectively and a further 9.5% increase in the year ending March 2007. Underpinning this has been high Chinese demand for iron ore, which has risen from over 92Mt in 2001 to 326Mt in 2006 and 387Mt in 2007.

China has become a major consumer, accounting for over 45% of global seaborne iron ore. China's continued growth has, however, not been matched by growth in supply capacity, leading to tightening supply: major capacity expansions and new capacity have been announced to meet this growing demand. The outlook is positive as China continues to grow and positions itself to remain a major consumer and exporter of steel.

The industry expects the seaborne iron ore trade to grow by an additional 200-250Mt by 2011. In addition, the consolidation of the Chinese steel industry will facilitate the movement to higher-value flat product exports to the USA, Europe, the Middle East and the rest of Asia as well as for domestic consumption in durable goods.

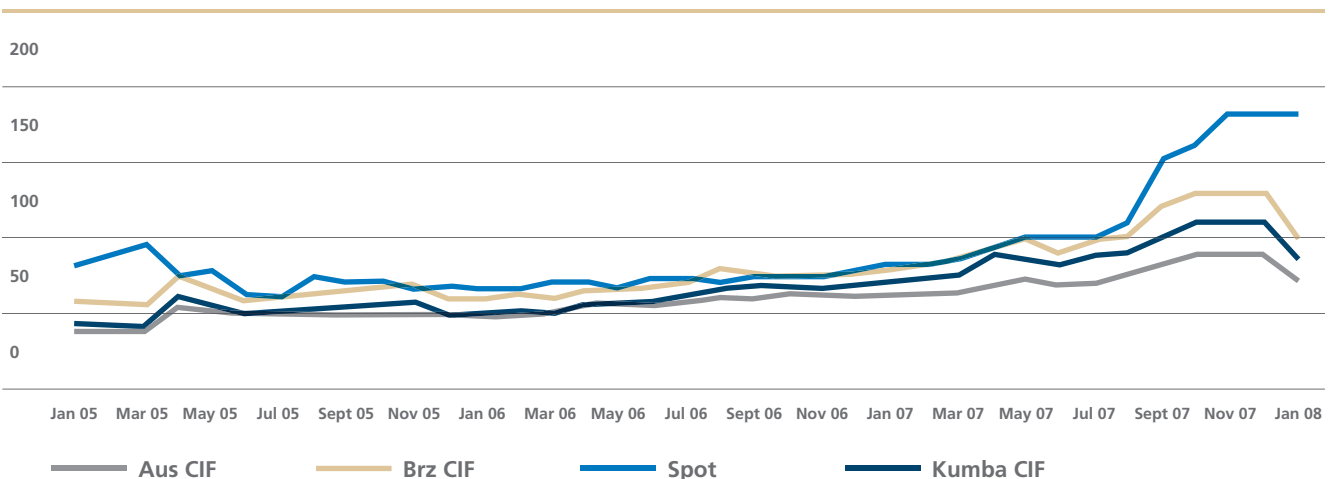
These developments will bode well for price increases as steel mills become more profitable and are able to absorb higher raw material costs.

Uncertainty remains about a possible mismatch in timing between demand growth and the rate at which new projects come online, given rising costs and a shortage of the required skills to deliver projects on time. The balance of risk is, however, believed to be on the upside and the market is likely to remain tight in the short to medium term.

Preferred product

Iron ore is used to produce pig iron and direct reduced iron, the primary raw materials in producing steel. Steel, in turn, is the primary component in structural engineering, vehicles, machinery and countless household items used daily. Steel is as much a mainstay of progress and development today as it was when the first ironworks were established at the turn of the 19th century.

Export iron ore price (US\$ per tonne)





In 2007, 24Mt was exported through the port of Saldanha.

Kumba has become a preferred supplier to many customers worldwide because of its beneficiated Sishen Mine ore – the combination of consistent quality, high iron content, resistance to physical degradation during transportation and handling, and very low moisture content has made this ore a sought-after product around the world.

While Kumba's production is at a relatively higher cost, largely due to rail transport costs, its high proportion of premium lump ore provides competitive margins relative to other producers.

Preferred supplier

Kumba aims to be a preferred supplier through long-term relationships that add value to its stakeholders. Central to this aspiration is a product and marketing strategy that ensures Kumba fulfils changing customer needs through a portfolio ranging from low-grade products with an iron content of 60% to the current high-grade products of 66% iron content.

Offering a multi-product portfolio requires a careful and dynamic balance between optimal resource utilisation and cost-effective operating processes. Achieving this balance in turn enables Kumba to market niche products at a premium, given the flexibility these products introduce to the manufacturing process for steel producers.

Logistics

Total throughput for Kumba on the Sishen-Saldanha rail line was marginally higher than the previous year but lower than anticipated, given slower-than-expected ramp-up of production from the jig plant. Accordingly, utilisation of the rail line was 87% compared to 94% in 2006 measured against guaranteed tonnage from Transnet Freight Rail.

Saldanha Port Operations

Kumba Port Operations Saldanha is a division of Kumba, located on South Africa's west coast (Western Cape province), 120km north-west of Cape Town. Its primary function is to arrange and monitor the orderly receipt of iron ore at the bulk terminal (Saldanha Bay); monitor loading of ore vessels; optimise blending through efficient stacking procedures; manage iron ore reclamation and provide a consistent homogeneous product.