

## COMMENTARY

### Reporting period

Kumba Iron Ore Limited ("Kumba" or "Company") was registered as a legal entity in May 2005. No trading took place in Kumba until November 2006, following the unbundling of Kumba from Kumba Resources Limited ("Kumba Resources") in terms of the Kumba Resources empowerment transaction. The published audited results therefore include trading for only the two-month period ended 31 December 2006.

Where reference is made to the 10-month period from 1 January 2006 to 31 October 2006, or to the 12-month period from 1 January 2006 to 31 December 2006, readers are advised that this supplementary information has been prepared from financial information reported by Kumba Resources and is unaudited. As Kumba did not trade before 1 November 2006, being the date that the Kumba Iron Ore Limited Group ("Group") came into existence, no comparative figures are provided.

### Audited Group operating results for the two months ended 31 December 2006

Profit after tax	Rm	379
Profit attributable to ordinary shareholders	Rm	264
Profit before interest and tax (EBIT)	Rm	684
Basic earnings per share	cps	84
Dividend declared per share	cps	80

The profit for the period ended 31 December 2006 was R379 million, of which R115 million was attributable to minority interest holders. 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 Sishen Iron Ore

Company (Proprietary) Limited ("SIOC") which Kumba 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.

Profit before interest and tax (EBIT) was R684 million for the two month period.

- Export volumes for the two months were 4 million tons ("Mt") bringing total exports for the year to 21,5 Mt. Domestic sales volumes to Mittal Steel South Africa Limited ("Mittal Steel") for November and December totalled 1,6 Mt. The majority of export sales during the two months were shipped to customers in China.
- Costs incurred to maximise throughput and to comply with new pit wall safety requirements, as well as human resources costs resulted in cost increases, particularly at the Sishen mine.

### Cash flow

Cash and cash equivalents at 31 December 2006 were R1,1 billion, whilst cash generated from operating activities amounted to R389 million. A net cash outflow of R140 million for the period related largely to capital expenditure on the Sishen Expansion Project ("SEP") (R511 million) partially offset by a R400 million increase in cash resources being the opening balance of cash in SIOC upon the acquisition of SIOC from Kumba Resources. Net interest bearing borrowings of R884 million were taken up during the two months reporting period.

### Net debt

During November 2006, the Group entered into loan agreements in order to replace previous back to back loan facilities provided by Kumba Resources.

### Overview of the 12 months ended 31 December 2006 (unaudited)

Kumba was unbundled from Kumba Resources and subsequently listed on the JSE Limited ("JSE") on 20 November 2006. Following completion of the Kumba Resources empowerment transaction, Kumba will comply with the 2014 equity ownership requirements of the Mining Charter. Applications for conversion of SIOC held old order rights were lodged in December 2005 and with the Kumba Resources empowerment transaction now completed, conversion representations to the Department of Mineral and Energy are in progress.

Global crude steel production for 2006, was 1,201 Mt, an increase of 8,8% over 2005. China's share of world steel output increased from 31% in 2005 to 34% in 2006, entrenching its position as the largest global producer of steel. The global iron ore market continued its very strong growth trend of the past few years, increasing by 13,9% to 1 750 Mt in 2006. China's consumption of global iron ore production increased by 33% to 560 Mt. The continued tight supply situation of iron ore was reflected by the 19% benchmark price increase for 2006/2007 that was settled in May 2006. This was followed by an early settlement of 9,5% between certain iron ore producers and steel mills during December 2006 for the 2007/2008 iron ore year, starting on 1 April 2007.

In 2006, Kumba's financial and operational performance was strong with year on year revenue and EBIT increasing from R6,6 billion to R8,7 billion and from R3,9 billion to R5,4 billion respectively. The underlying EBIT margin increased from 42% in 2005 to 46% in 2006. This excludes the proceeds on the

settlement of Hope Downs in 2005, and the profit on the offshore non-iron ore assets sold to Kumba Resources in terms of the Kumba Resources empowerment transaction in 2006. It also excludes the IFRS2 expense of R153 million arising on the sale of equity to the SIOC Community Development Trust. Inflationary pressure had a negative impact on profit but was partially offset by continued operating cost savings from improvement initiatives. Costs were higher, primarily due to higher fuel, human resource and project-linked operating costs as well as an increase in waste stripping and maintenance related activities.

As part of the Kumba Resources empowerment transaction, all offshore non-iron ore assets were sold to Kumba Resources resulting in a non-recurring profit of R1,6 billion in September 2006.

Export sales volumes for 2006 decreased by 3% from 2005 to 21,5 Mt, hampered by a breakdown of loading equipment at the Saldanha port in September 2006. This constrained shipments and necessitated the rescheduling of vessels. Production volumes at Sishen mine increased by 1% to 28,7 Mt and tonnage railed from the mine to the port of Saldanha increased by 1% to 24,3 Mt. Domestic sales volumes decreased by 9% to 8,3 Mt due to lower demand from Mittal Steel.

Cash from operating activities for the 12 months ended 31 December 2006 increased by 65% from R2,6 billion to R4,3 billion. Cash outflow for capital expenditure increased from R402 million in 2005 to R1,7 billion in 2006 due to increased capital expenditure on growth projects.

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continued

### Safety performance

Kumba made good progress on its way to zero harm status by achieving a lost time injury frequency rate ("LTIFR") of 0,22 and 0,31 at Sishen and Thabazimbi respectively. Despite this improvement, and most regrettably the Group had one fatality at its Sishen operation in April 2006. Sishen mine made good progress in reducing the number of lost time incidents ("LTI") suffered in 2006; achieved three million man hours without a LTI for the second time since 2002, and on 31 March 2006 recorded an all time record of 5,3 million man hours without an LTI. The SEP project achieved an LTIFR of 0,11 during 2006.

### Project pipeline

**Sishen Expansion Project (SEP):** Physically the construction of SEP was 76% completed at 31 December 2006. Despite engineering difficulties relating to skills shortages amongst suppliers the project is expected to ramp up according to plan during the second half of 2007. This project will apply jig technology to extract 13 million tons per annum ("Mtpa") additional saleable ore from 21 Mtpa of feedstock; about 8 Mtpa material previously accounted for as waste and 13 Mtpa from new run-of-mine material. In August 2006, a decision was taken to expand SEP production from 10 Mtpa to 13 Mtpa at an additional capital cost of R1,3 billion. The project is expected to be completed within its budget of R5,1 billion. Ramp up to full capacity is expected in early 2009 and will increase annual production from Sishen to 42 Mtpa. A pre feasibility study to expand the current Sishen mine by a further

10 Mtpa – 20 Mtpa, in addition to SEP is due to be completed during 2007, with production currently anticipated to commence by 2011.

**Sishen South Project:** The feasibility study will be completed in March 2007. Following the finalisation of the Transnet feasibility study for the expansion of the Sishen Saldanha export channel, and successful negotiations of rail tariffs, Kumba is expected to make an investment decision on the development of the Sishen South Project in the second half of 2007. The capital cost is currently estimated at approximately R3 billion for a 9 Mtpa mine.

**Project Phoenix:** The feasibility study to extend the life of the Thabazimbi mine by some 20 years through exploitation of the in situ low iron content banded ironstone formation will be completed in April 2007. However, Mittal Steel advised in December 2006 that it no longer wishes to participate in Project Phoenix. The Group is considering alternative options to ensure maximum resource utilisation.

**Falémé – Senegal:** Following notification from Miferso that it disputes Kumba's rights to the development of the Falémé iron ore project Kumba continues to engage with the Government of Senegal to resolve the dispute amicably. It remains the view of the Board that if these negotiations prove to be unsuccessful, legal action available to Kumba will be pursued to preserve its contractual rights.

Kumba's legal advisors have concluded that the particulars of the claim for US\$196 million from an erstwhile potential partner in the Falémé project, Lithos, as presently framed, do not sustain a cause of action and accordingly no provision has been raised.

### Prospects

The upward trend in global iron ore demand is expected to continue during the coming year. Prospects for continued real growth in global steel demand remain positive in 2007, with the strongest growth again expected to come from China with an anticipated increase of 8% – 10% in steel consumption.

The outlook for Kumba for 2007 is expected to remain positive, given a stable macro economic environment, continued strong iron ore demand and firm iron ore prices.

Kumba will focus on growth through its current operations whilst broadening its' production base further as it actively pursues its pipeline of projects.

**PL Zim**  
*Chairman*

**EJ Myburgh**  
*Chief Executive Officer*

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Pretoria

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or "the Company")