Chief executive officer's review

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>
> – Dr Con Fauconnier, chief executive officer

The year 2006 signalled a turning point in the transformation of the South African mining industry with the culmination of the R50 billion flagship empowerment transaction that unbundled Kumba Resources' iron ore assets and listed them on the JSE Limited as Kumba Iron Ore, and merged Kumba's non-iron ore assets with those of Eyesizwe Coal and relisted these as Exxaro Resources.

This is the first report to shareholders under our new brand as Exxaro – a new-era South African company in the truest sense because it represents this country through diversity, empowerment and development at every level, from supporting entrepreneurship in the communities around our operations to equality and fulfilment in the workplace to national socio-economic development initiatives.

Exxaro, although based in South Africa, enjoys a global presence. We are expanding our world-class portfolio of assets, with experienced teams in every mining discipline. We have exceeded all key South African legislative requirements for transformation. Best-practice corporate governance structures are in place and we will continue to set the standard in developing and training people – within and beyond the company – to address the critical skills shortage in South Africa.

Many of our current shareholders were also shareholders when we began a similar journey in 2001 with a fledgling Kumba Resources – the intervening years vindicated your trust through strong growth, expansion and international recognition for our corporate governance in rapidly changing markets. We are confident that your trust in supporting the empowerment transaction that created Exxaro will be similarly rewarded.

Two years of consultation, negotiation and preparation among many parties ended in November 2006 when first Kumba Iron Ore and then Exxaro Resources listed on the JSE Limited –

as independent mining groups clearly focused on their core sectors. For Kumba Iron Ore – as the name suggests – it was the opportunity to become one of the first pure iron ore investments in the world and we wish our former colleagues every success.

Business environment

The economic landscape during 2006 was characterised by continued strength in global commodity demand, particularly from China, supporting higher metal and mineral prices and by a weakening domestic producer currency that favoured exporters. The average spot exchange rate for the review period was R6,76 compared with R6,36 for 2005, in contrast to global trends where most currencies strengthened against the US dollar.

The South African Reserve Bank incrementally raised interest rates during 2006, with the prime rate ending the year two percent higher at 12,50%, and maintained inflation in its target range. Unprecedented growth in consumer spending is expected to slow down in the early months of 2007 as consumers react to higher interest rates.

Powering possibility

Following the listing on 27 November 2006, Exxaro is positioned as the largest South African-based diversified resources company, with an excellent portfolio in the coal, mineral sands, base metals and industrial minerals commodities, and with a 20% interest in iron ore through Sishen Iron Ore Company, a subsidiary of Kumba Iron Ore.

The Kumba empowerment transaction received the BusinessMap Business Report 2006 BEE Deal of the Year award in acknowledgement of its widespread and meaningful empowerment.

Exxaro has built up critical mass and leading market positions in the core operations of coal, mineral sands and base metals by:

- Merging Kumba Coal and Eyesizwe Coal to position Exxaro as the fourth-largest coal producer in South Africa and the largest supplier to Eskom. The process of integrating the Eyesizwe and Kumba operations and people under the Exxaro banner has been smooth and expected synergies and combined strengths are already emerging. Importantly, the combined management teams have merged seamlessly, and market response has been positive as reflected in a share price that has risen 32% from its revised closing listing price per share of R57,58 to a peak of R76,00 on 1 February 2007 before retracting to its current level of R55,00 per share in line with lower global equity markets. Full details of our empowerment partners appears on www.exxaro.com.
- Acquiring 100% of Namakwa Sands, subject to certain suspensive conditions, to become a market leader in mineral sands.

- Strengthening our position in the zinc market, again subject to certain suspensive conditions, by acquiring a 26% stake in Black Mountain lead/zinc mine and the Gamsberg zinc project. The acquisitions were made by way of options granted to Exxaro as part of its empowerment transaction.

The issues facing Exxaro at present – in common with the broader South African mining sector – are largely legislative uncertainties. We are greatly encouraged by the improved spirit of co-operation between government, particularly the Department of Minerals and Energy, and industry. We trust this will facilitate the process of converting mining and prospecting rights to new order rights, as required by the Mineral and Petroleum Resources Development Act of 2004, to bring more certainty to the industry and unlock the capital investments required to maintain South Africa's role as a prominent participant in the international resources sector.

Applications for conversion of the group's mineral rights into new order mining rights have been submitted to the appropriate regional offices of the Department of Minerals and Energy for consideration. Exxaro will co-operate fully with the department as it strengthens its resources to manage volumes ahead of the 2009 deadline for conversion.

In October 2006, South Africa's treasury department released a revised royalty bill and invited industry comment. The revised bill contains a number of improvements, reflecting the constructive interaction between business and government, and Exxaro has submitted a comprehensive response on issues that may impede the development of a suite of policies and legislation working together to encourage investment in the domestic mining industry which we believe will be in the best socio-economic interests of the country.

Acquisition of Namakwa Sands and interest in Black Mountain and Gamsberg

In January 2007, Exxaro announced its intention to acquire from an Anglo American plc subsidiary 100% of the assets and business of Namakwa Sands and a 26% interest in Black Mountain Mining (Pty) Limited, which owns the Black Mountain lead/zinc mine as well as the Gamsberg zinc project.

This will position Exxaro strategically as one of the world's largest suppliers of titanium dioxide feedstock and zircon, and strengthen its role in the South African zinc market. Exxaro already enjoys a prominent position in the mineral sands industry, with operations in KwaZulu-Natal and 50% of the Tiwest integrated minerals sands and pigment producer in Western Australia. Exxaro also owns the only zinc metal refinery in South Africa and a controlling interest in the Rosh Pinah zinc mine in Namibia.

Chief executive officer's review continued

The purchase considerations of R2 015 million and R180 million respectively, before certain adjustments, for Namakwa Sands and Black Mountain were approved by Exxaro shareholders on 6 March 2007 and are now subject to certain suspensive conditions, most notably the conversion of mining and prospecting rights to new order rights. It is expected that all suspensive conditions will be satisfied in the second half of 2007.

Strategy

As a fully empowered and diversified South African mining company, listed on the JSE Limited, Exxaro's strategy is to capitalise on growth opportunities both domestically and internationally.

- In the short term, we will consolidate and integrate existing assets, operations and projects under Exxaro, including Namakwa Sands, for maximum benefit and exploit potential synergies from our empowerment transaction.
- Our longer-term strategy will focus on leveraging off the advantage Exxaro enjoys in the Waterberg coal field, with the only existing operating mine and high-quality reserves, and satisfying growing domestic demand for power station coal, reductants and metallurgical coals. The mineral sands business is unique in being the only globally integrated producer from mine to pigment. The ability to produce a full range of mineral sands products, global operations and a high level of intellectual knowledge lends itself to developing strategic opportunities.

  The importance Exxaro places on technology and the success achieved to date in developing the AlloyStream™ technology, indicates potential for a strategic focus on ferroalloys.
- Growth opportunities from our existing pipeline of projects will be pursued prudently and within sustainable debt levels.
- Good governance, underpinned by a multi-stakeholder approach, is an important feature of Exxaro.

Financial review

Introduction

The group's audited financial results and unaudited physical information for the financial year ended 31 December 2006 are not comparable to the corresponding results and physical information for the previous financial year due to the successful conclusion of the empowerment transaction.

The audited financial results for the 12-month period ended 31 December 2006 include Sishen Iron Ore Company (Pty) Limited (SIOC) consolidated for 10 months to 31 October 2006 and equity accounted for the remaining two months to 31 December 2006 at an effective 20% holding. Eyesizwe Coal (Pty) Limited (Eyesizwe Coal) has been consolidated only for the two months ended 31 December 2006.

Moreover, due to the unbundling of the iron ore business as part of the empowerment transaction, the income statement differentiates in its disclosure between continuing operations (non-iron ore assets of Kumba Resources plus the merged Eyesizwe Coal assets), and discontinued operations being the iron ore assets of Kumba Resources.

The segmental results and adjusted earnings numbers comprehensively disclose the non-recurring accounting entries necessitated by the implementation of the empowerment transaction. These non-recurring accounting entries were also disclosed in the circular to shareholders dated 9 October 2006.

Unaudited comparative supplementary information of the financial results of Exxaro had the empowerment transaction been implemented with effect from 1 January 2005, but excluding the acquisition of Namakwa Sands and a 26% interest in the Black Mountain lead-zinc mine and Gamsberg zinc project has been provided on pages 53 to 55, for information purposes only. The comparative illustrative financial results are, therefore, compiled on the assumption that Eyesizwe Coal had been acquired and fully consolidated from 1 January 2005, Exxaro had equity accounted its 20% interest in SIOC from the same date, and all non-recurring accounting entries associated with the empowerment transaction are excluded. The option and settlement proceeds for the interest in the Hope Downs project received in 2005, and the impairment of the carrying value of the mineral sands' assets in 2006, have also been excluded.

Overview of group operating results

The financial results under review benefited from a substantial recovery in the zinc metal price and higher iron ore, coal and zircon prices, partially offset by above inflation increases in labour, petroleum and energy-related consumables.

Revenue increased by 16% to R13,7 billion while adjusted net operating profit, excluding the impact of the impairment of the carrying value of the local mineral sands' assets and the accounting entries relating to the empowerment transaction in 2006 as well as the Hope Downs settlement in 2005, increased by R598 million to R4 339 million.

Chief executive officer's review continued

TABLE 1

Rm	**12 months ended 31 December 2006**	12 months ended 31 December 2005
Revenue	**13 746**	11 881
Continuing operations[1]	**7 263**	5 308
Discontinued operations[1]	**6 483**	6 573
Net operating profit (Ebit)	**20 697**	4 920
Continuing operations[1]	**17 599**	989
Discontinued operations[1]	**3 098**	3 931
Adjusted for:		
– Fair value adjustment on unbundling[2]	**(17 963)**	
– Impairment[3]	**784**	
– Share based payment: BEE credential expense[4]	**580**	
– Hope Downs settlement[5]		(1 179)
– Empowerment and unbundling costs[6]	**241**	
Adjusted net operating profit	**4 339**	3 741
Depreciation and amortisation	**831**	826
Adjusted earnings before interest, tax, depreciation and amortisation (Ebitda)	**5 152**	4 567
Adjusted operating margin (%)	**32**	31
– Continuing operations	**17**	18
– Discontinued operations	**48**	42
Adjusted Ebitda margin (%)	**37**	38
– Continuing operations	**25**	28
– Discontinued operations	**51**	47

1 *Continuing operations include the Eyesizwe Coal assets consolidated for two months from 1 November to 31 December 2006 plus the non-iron ore assets of Kumba Resources Limited. Discontinued operations consist of the iron ore assets of Kumba Resources Limited for 10 months to 31 October 2006.*

2 *The fair value of the investment in Kumba Iron Ore Limited that was unbundled to shareholders as a dividend in specie.*

3 *Pre-tax impairment of the carrying value of the local mineral sands assets.*

4 *The discount at which shares were issued as part of the empowerment transaction.*

5 *A$236,5 million option and settlement payment realised on the disposal of Kumba Resources' interest in the Hope Downs project.*

6 *Includes the cost of the empowerment transaction as disclosed in the Circular to shareholders dated 9 October 2006, branding, information management infrastructure and integration expenditure, and share-based expenses on the collapse of the previous management incentive schemes.*

Segmental results

Segmental results are shown in Tables 2 and 3.

Table 2

Rm	12 months ended 31 December 2006	12 months ended 31 December 2005
Revenue		
Iron ore[1]	**6 483**	6 573
Coal	**2 882**	2 187
– Kumba Coal (up to 31 October 2006)	**2 074**	2 187
– Exxaro Coal[2]	**808**	
Mineral sands	**1 859**	1 927
– Exxaro KZN Sands	**817**	839
– Exxaro Australia Sands	**1 042**	1 088
Base metals	**2 379**	1 070
Industrial minerals	**122**	107
Other	**21**	17
Total	**13 746**	11 881
R/US$ exchange rate realised	**6,76**	6,36

1 100% of SIOC consolidated for 10 months to 31 October 2006 and for 12 months to 31 December 2005.

2 Exxaro Coal represents the former Kumba Coal and Eyesizwe Coal from 1 November 2006.

Table 3

	12 months ended 31 December 2006 Rm	%	12 months ended 31 December 2005 Rm	%
Net operating profit (Rm)/margin (%)				
Iron ore[1]	**3 098**	**48**	2 767	42
Coal	**599**	**21**	554	25
– Kumba Coal (up to 31 October 2006)	**535**	**26**	554	25
– Exxaro Coal[2]	**64**	**8**		
Mineral sands[3]	**(698)**	**5**	259	13
– Exxaro KZN Sands[3]	**(842)**	**(7)**	(47)	(6)
– Exxaro Australia Sands	**144**	**14**	306	28
Base metals	**609**	**26**	69	6
Industrial minerals	**26**	**21**	26	24
Other	**17 063**		1 245	
– Fair value adjustment on unbundling	**17 963**			
– Share based payment: BEE credential expense	**(580)**			
– Hope Downs			1 179	
– Empowerment and unbundling costs	**(241)**			
– Other	**(79)**		66	
Total[4]	**20 697**	**32**	4 920	31

1 *100% of SIOC consolidated for 10 months to 31 October 2006 and for 12 months to 31 December 2005.*
2 *Exxaro Coal represents the former Kumba Coal and Eyesizwe Coal from 1 November 2006.*
3 *Operating margin in 2006 excludes the impact of the impairment.*
4 *Operating margins exclude the impact of all non-recurring entries associated with the empowerment transaction, the Hope Downs settlement amount received, and the impairment.*

Income from equity accounted investments

Our share of the attributable profits from equity accounted investments, after tax, increased as a consequence of the equity accounting of SIOC from 1 November 2006 and the higher contribution from the investment in the Chifeng refinery in line with production and sales growth and the stronger zinc metal price.

Table 4

Rm	12 months ended 31 December 2006	12 months ended 31 December 2005
SIOC	**119**	
Chifeng zinc refinery	**40**	12
AST Group Limited		(5)
Total	**159**	7

Earnings

Attributable earnings, inclusive of Exxaro's 20% interest of the post-tax profits of SIOC for November and December 2006 but excluding the mineral sands' asset impairment and non-recurring accounting entries, are R2 831 million or 904 cents per share (Table 5).

Headline earnings which exclude the unbundled interest of Kumba Iron Ore at fair value but include the empowerment transaction related expenses of R821 million which are not allowed to be excluded, are R1 698 million or 542 cents per share. Headline earnings per share, adjusted for comparison with 2005 by also excluding these expenses, are 805 cents per share.

Table 5

Rm	12 months ended 31 December 2006	12 months ended 31 December 2005
Adjusted net operating profit per Table 1	**4 339**	3 741
Net financing costs	**(336)**	(282)
Equity accounted income	**159**	7
Taxation	**(1 331)**	(981)
– As reported	**(1 324)**	(1 407)
– On Hope Downs proceeds		426
– On impairment	**(227)**	
– On share repurchase[1]	**220**	
Adjusted attributable earnings	**2 831**	2 485

1 *Secondary tax on companies (STC) on the repurchase of 38 331 012 shares as part of the empowerment transaction.*

Chief executive officer's review continued

Table 6

Rm	**12 months ended 31 December 2006**	12 months ended 31 December 2005
Net profit attributable to ordinary shareholders	**19 169**	3 177
Impairment charges	**784**	28
Share of associates net profit on disposal of property, plant and equipment	**(1)**	
Excess of minority interest over cost of acquisition	**(36)**	(95)
Net deficit on disposal of property, plant and equipment	**3**	2
Fair value adjustment prior to unbundling	**(17 963)**	
Net profit on disposal of investments	**(39)**	(1 179)
Minority interest on adjustments		(1)
Taxation effect of adjustments	**(219)**	428
Headline earnings as reported	**1 698**	2 360
Empowerment transaction related expenses		
– BEE credential expense	**580**	
– Empowerment and unbundling costs	**241**	
Adjusted headline earnings	**2 519**	2 360
Headline earnings per share	**542**	776
Adjusted headline earnings per share	**805**	776

Taxation

The statutory tax rate of 29% increased to 31% due to STC of R424 million on dividends paid during the year and on the repurchase of 38 331 012 shares as part of the empowerment transaction. The subsequent reduction to an effective rate of 6% is as a result of the non-recurring accounting entries relating to the pre-unbundling fair value adjustment of Kumba Iron Ore, which is not taxable, and the BEE credential expense and empowerment and unbundling costs which are not tax deductible.

Dividends

The Exxaro board will consider the declaration in each financial year of an interim and final dividend with the intention to progress to the distribution of 50% of attributable earnings after making provision for future commitments, working capital requirements and available cash. The following dividends were approved by the board during the financial year under review:

Period ended	Cents per share	Rm	Rm including STC	Declared	Paid
31 December 2005	160	490	551	February 2006	March 2006
30 June 2006	180	557	627	August 2006	September 2006
31 October 2006[1]	185	580	653	November 2006	November 2006
Share repurchase[2]		1 763	1 983	November 2006	November 2006

1 *Unbundling dividend.*
2 *Repurchase of shares in terms of the empowerment transaction.*

Cash flow

Cash retained from operations of R4 761 million was mainly utilised to fund taxation of R1 927 million, dividends of R3 396 million, capital expenditure of R2 010 million of which R1 321 million was invested in new capacity, and the acquisition of Eyesizwe Coal at a net cash outflow of R1 545 million.

Cash outflows in respect of dividends and taxation were increased by the repurchase of shares as part of the empowerment transaction together with STC on the repurchase, collectively amounting to R1 983 million.

After also accounting for the inflow of R2 199 million from the issue of 65 334 843 shares to Exxaro's black-controlled holding company, net debt of R1 638 million at 31 December 2005 reduced to R921 million at a net debt to equity ratio of 11,3%. Net debt will increase by the anticipated cash outflow in 2007 of R2 353 million subject to price adjustments, as a result of the exercise of the options to acquire Namakwa Sands and a 26% interest in Black Mountain/Gamsberg for which term facilities are in place.

Table 7

Rm	12 months ended 31 December 2006	12 months ended 31 December 2005
Net cash retained from operations	**4 761**	3 864
Net financing cost, taxation and dividends	**(5 601)**	(2 457)
Cash used in investing activities		
• New capacity	**(1 321)**	(655)
• Other capital expenditure	**(689)**	(389)
• Acquisition of/increase in investment in subsidiaries[1]	**(1 545)**	(1 174)
Increase in net debt on acquisition of a subsidiary	**(120)**	
Asset and investment disposals[2]	**196**	1 202
Share issue[3]	**2 199**	128
Prior year adjustment, increase in net debt due to application of IFRIC 4[4]		(247)
Net debt of unbundled subsidiaries	**2 762**	
Other movements	**75**	(40)
Decrease in net debt	**717**	232

1 *Acquisition of minority interest in Ticor Limited (now Exxaro Australia Sands) in 2005, and acquisition of Eyesizwe Coal in 2006.*

2 *Includes the R1 179 million proceeds from the Hope Downs Project in 2005.*

3 *Issue of shares to Exxaro's black-controlled holding company as part of the empowerment transaction.*

4 *Finance lease liabilities raised for arrangements that contain a lease.*

Financial structure

Pursuant to the implementation of the empowerment transaction, Kumba repaid its existing long and short-term borrowings of approximately R2 billion with the exception of Exxaro Australia Sands term facilities of US$75 million, which were retained. In addition to normal working capital facilities, Exxaro raised seven year term facilities amounting to R2,6 billion of which R2 195 million will be available for the Namakwa Sands and Black Mountain acquisitions.

The group's net debt was R921 million as at 31 December 2006 at a net debt to equity ratio of 11%. Net debt will increase to approximately R3 300 million after the acquisition of Namakwa Sands and Black Mountain, increasing the net debt to equity ratio to approximately 42%. This, together with the opportunity to raise dedicated finance facilities on the back of longer term offtake agreements, allows for flexibility to fund Exxaro's strong project pipeline.

Capital expenditure

Table 8 contains a comparison of capital expenditure for the 12-month period ended 31 December 2006 and 2005 together with an estimate for the 2007 financial year.

Table 8

Capital expenditure[1] **Rm**	Financial year estimate 2007	**12 months ended 31 December 2006**	12 months ended 31 December 2005
Sustaining and environmental	645	**689**	389
Expansion			
• Iron ore		**1 038**	274
• Coal[2]	1 393	**235**	311
• Mineral sands	354	**29**	66
• Base metals	36	**8**	2
• Industrial minerals	15	**1**	
• Other	10	**10**	2
Total	2 453	**2 010**	1 044

1 Excludes the acquisition of Namakwa Sands and a 26% interest in Black Mountain/Gamsberg.

2 Includes R821 million in 2007 for the development of the Mafube expansion project in which Exxaro is a 50:50 joint venture partner with Anglo Coal.

Changes to international financial reporting standards (IFRS)

The financial statements have been prepared using the same accounting policies as those used for the year ended 31 December 2005 except for the adoption of IFRIC 4, Determining whether an arrangement contains a lease. The effect of this is disclosed in note 2 to the audited financial statements.

Due to the successful conclusion of the empowerment transaction, compliance was also ensured with all standards and circulars governing the accounting treatment and disclosures of BEE transactions, most notably IFRS 2, Share-based payments, having an impact of R580 million on profit and loss for the current period.

Post-retirement benefit liability

Accredited medical aid funds have been structured to exclude any employer liability for post-retirement medical benefits in respect of either existing or past employees.

Exxaro is a participating employer in a number of defined contribution funds and two closed defined benefit funds. These defined benefit funds were adequately funded as per the latest actuarial valuations on 31 December 2005.

Chief executive officer's review continued

Review of operational performance and projects

Exxaro's operations in coal, mineral sands, base metals and industrial minerals continue to perform well. As noted, the integration of Eyesizwe's coal operations and teams is well under way, enhancing critical mass and management depth in Exxaro.

In the coal portfolio:

Coal production was substantially higher due to increased output at the former Kumba Coal mines and the acquisition of the former Eyesizwe Coal mines.

Production of coking coal increased by 222kt on the comparative 2005 period. Higher output from the commissioning of the new coal beneficiation module (GG6) at the Grootegeluk mine during August 2006 was partially offset by lower production at Tshikondeni mine caused by unfavourable geological conditions.

Increased throughput at both the Grootegeluk and Leeuwpan mines and an additional 277kt from the former Eyesizwe Coal mines during November and December 2006, increased thermal coal production by 12% or 372kt. The continued higher demand from Eskom, the ramp-up of the jig plant at Leeuwpan mine and the acquisition of Eyesizwe Coal, contributed to power station coal production increasing by 24% to 18 061kt for the year under review.

The higher demand from Eskom and metallurgical coal at stronger than anticipated prices, combined with more favourable export agreements and the contribution from the former Eyesizwe mines, resulted in an increase of 32% in revenue to almost R2,9 billion.

Net operating profit, in turn, increased by R45 million to R599 million as the higher turnover was offset by increases in labour and petroleum costs. The cost-based arrangement of the former Eyesizwe mines with Eskom also impacted on the operating margin of the overall commodity business.

Growth opportunities in the coal portfolio:

Commissioning of the R323 million new GG6 plant at Grootegeluk mine started in August 2006 with full production expected by mid-2007. The plant is treating and beneficiating coal previously sent untreated to the adjacent Matimba power station and will at full production supply 730ktpa of semi-soft coking coal to the refurbished coking plants of Mittal Steel at its Newcastle facility.

Construction, at an estimated cost of R245 million, of the 1Mtpa export-focused Inyanda mine near Witbank to produce high quality thermal coal has now commenced after new order mining rights were awarded in November 2006 and the approval of the Richards Bay Coal Terminal (RBCT) expansion earlier in the year. Letters of intent for offtake for the period April 2008 to June 2009, prior to the commissioning of RBCT Phase V, have also been received.

The RBCT Phase V expansion, in which Exxaro is a 12,5% shareholder, will provide Exxaro Coal with a 2Mtpa export allocation in addition to the 1,1Mtpa available from Eyesizwe Coal's RBCT shareholding. This allocation will be utilised by production from the new Inyanda mine as well as from expanded output at Exxaro's Mpumalanga operations and its Grootegeluk mine.

Construction of a Sintel Char facility to produce char for the ferroalloy industry from the Grootegeluk mine commenced in August 2006. Production from this plant will start at 80ktpa and is expected to ramp-up to 160ktpa by 2008. The capital estimate for the project is R234 million.

A feasibility study to investigate the viability of a market coke plant is expected to be completed in the first half of 2007. If viable, the plant will produce high-quality market coke from semi-soft coking coal produced at Grootegeluk mine.

A technical feasibility study to potentially supply 7,3Mtpa of power station coal to Eskom for a new 2 100MW power station consisting of three generating units, adjacent to the Matimba power station, was completed in June 2006. Commercial agreements are being negotiated and if approved by Exxaro and Eskom, construction could commence in 2008 with production from 2010. A feasibility study for coal supply to an additional three generating units is in progress and will be completed by April 2007.

Exxaro and Anglo Coal Australia concluded a joint venture agreement to undertake exploration and evaluate the coking coal resource on the adjacent properties of Moranbah South and Grosvenor South in Queensland, Australia. Exploration is progressing according to plan and a pre-feasibility study for an initial phase underground mine is expected to be completed by year-end.

The results of the recent drilling programme at Mmamabula Central in Botswana, which is a joint venture between Exxaro Coal and Magaleng, have indicated positive results. Further geological drilling and modelling will continue during 2007 with a feasibility study commencing in 2008.

Construction of the Mafube expansion project in which Exxaro is a 50:50 joint venture partner with Anglo Coal is progressing well, with first product from this 3Mtpa export mine expected in October 2007.

A feasibility study for the development of the Belfast underground and open-pit mine to supply between 2,5Mtpa and 4,5Mtpa of coal to both Eskom and the export market has commenced and will be completed during 2007.

Chief executive officer's review continued

Converted mining rights for the Eerstelingsfontein reserves near Belfast have been obtained and an implementation plan to commence mining in this area has been developed to supply Eskom with 1Mtpa of power station coal.

In the minerals sands portfolio:
Exxaro KZN Sands
The Furnace 1 shut to effect modifications and improvements was successfully completed in the second half of 2006. This, however, negatively impacted on slag and low manganese pig iron production and sales. Successful improvement initiatives resulted in marginally higher production of zircon, rutile and slag.

Despite the weaker currency, higher rutile sales and stronger zircon prices, revenue and net operating profit, excluding the impairment, were R22 million and R11 million lower respectively than for the corresponding period in 2005. This was due to the Furnace 1 shut resulting in lower slag and pig iron sales.

As reported in the announcement of the 2006 interim results of the group, the combined impact of a stronger currency outlook over the life of the assets and projected surplus of high-grade titanium feedstock on world markets, led to a pre-tax reduction of R784 million in the carrying value of the assets.

Exxaro Australia Sands
Business improvement initiatives led to increased mineral production.

The unplanned shut of the synthetic rutile (SR) kiln at the Chandala plant in July 2006 to enable inspection and repairs to refractories resulted in 13kt lower SR production and a net operating opportunity loss of R28 million. The shut was, however, also utilised to carry out maintenance that was planned for 2007 with the result that sales impacted by the 2006 shut will effectively realise in 2007.

Although revenue was marginally lower, net operating profit decreased by R162 million to R144 million due to the SR kiln shut, maturity in 2005 of the favourable hedging programme and substantial increases in the cost of energy-related consumables and labour.

Growth opportunities in the mineral sands portfolio:
The Exxaro board has approved the construction of the Fairbreeze mine, south of Exxaro KZN Sands' existing Hillendale mine in KwaZulu-Natal, subject to obtaining a new order mining right for the Fairbreeze C Extension area and the applicable environmental authorisations. Production is planned to commence in 2008.

Exploration work has confirmed the presence of a large low-grade deposit on the Port Durnford property located to the immediate south-west of Exxaro KZN Sands' Hillendale mine. The deposit has the potential to supply Exxaro's current furnaces for more than 25 years.

The Port Durnford project is a 51%: 49% joint venture between Exxaro Sands and Imbiza Resources.

Exxaro Australia Sands acquired the Dongara project in March 2003 as part of its takeover of Magnetic Minerals. Located in Western Australia, the 20Mt reserve containing 10% heavy minerals will provide supplementary feedstock for Tiwest's mineral separation plant and synthetic rutile facility. Tronox acquired 50% of Dongara in 2006 and it became part of the Tiwest joint venture with Exxaro Australia Sands. A bankable feasibility study is being conducted and if viable, production is expected to start at the end of 2009.

The group together with its joint venture partner, Tronox, has announced plans to increase annual production capacity, subject to a feasibility study and board approval, at the Tiwest Joint Venture (Tiwest) titanium dioxide pigment plant in Kwinana, Western Australia.

The Kwinana plant, with a current capacity of 110ktpa, produces chloride process titanium dioxide (TiO^2) pigment. The brownfield expansion will increase capacity by 40ktpa to 50ktpa. It is estimated that the expansion will cost between US$35 million and US$45 million. The additional capacity is expected to come on line in 2009.

Drilling on the Ranobé and Monombo-Marombe exploration areas comprising the Toliara Sands project in south-western Madagascar is indicating resources capable of supplying long-term ilmenite feedstock to the Exxaro KZN Sands furnace complex. It is envisaged that the feasibility study will be completed in 2007 after which a development decision will be made.

In the base metals and industrial minerals portfolio:

Zinc concentrate production from the Rosh Pinah mine was significantly lower as a result of accelerated exploration development, heavy rainfall in southern Namibia in the first six months which negatively affected transport from Rosh Pinah mine, and industrial action by employees in November 2006. Zinc metal production at the Zincor refinery was 12kt lower due to lower quality zinc concentrates which caused plant instability, the planned rebuild of a roaster and acid plant stoppages. An additional roaster shut and rebuild, which forms part of Zincor's scheduled maintenance programme, is planned for the third quarter of 2007.

Revenue, however, increased by 122% to R2 379 million and net operating profit by R540 million to R609 million at an operating margin of 26%. This was primarily due to an increase of 137% in the average realised zinc price of US$3 277 per tonne for the period compared with the previous period in 2005.

In line with production and sales growth and the stronger zinc metal price, Exxaro's equity accounted income from

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its investment in the Chifeng refinery in China increased from R12 million to R40 million.

Negotiations with Namibian groupings to acquire a 49,9% interest in Rosh Pinah mine are proceeding. Exxaro will retain management and operational control.

Industrial minerals
Physical volumes and the financial contribution from both the dolomite and ferrosilicon components of this business segment were in line with the previous financial year.

Growth opportunities in the base metals and industrial minerals portfolio:
The expansion project for the Chifeng smelter to increase capacity from 50ktpa to 110ktpa is on track to be commissioned around mid 2007. Exxaro is participating in the expansion by converting 22% of its 60% shareholding in the Phase 2 company to 25% in the new Phase 3 company which will result in an effective 22% interest in the expanded operation.

Exxaro entered into a 50:50 joint venture agreement with Zincongo, a Congolese subsidiary of First Quantum Limited, to develop the Kipushi project during 2002. Following an invitation in August 2006 by Gecamines of the Democratic Republic of the Congo (DRC) for international tenders in connection with the Kipushi zinc mine near Lubumbashi in the DRC, Zincongo initiated emergency proceedings against Gecamines before the Belgium courts on the grounds that the tender invitation is in breach of the existing exclusivity contractual arrangements between Gecamines and Zincongo. The Belgium courts are expected to announce a ruling during the first quarter of 2007.

In December 2006, Exxaro also informed Gecamines that it will lodge a request for ICC arbitration, asking for enforcement of the agreements concluded between the companies regarding the rights to develop the Kamoto copper/cobalt project at Kolwezi in the DRC.

ALLOYSTREAM™
The commercialisation of AlloyStream™ technology, which allows for improved beneficiation of manganese ore into ferromanganese, is advancing. A joint venture agreement, signed between Samancor Manganese and Exxaro in March 2006, provides for co-operation which could result in a facility producing 200ktpa of high carbon ferromanganese utilising the technology, if proved viable by feasibility studies. A development decision on the first commercial furnace of this project is expected towards the end of 2007, with production start-up anticipated to commence by the end of 2009.

A study to apply the technology to the production of ferronickel will be initiated in 2007.

Iron ore
In the 10-month period to 31 October 2006, production was negatively impacted by inclement weather in the

first quarter while exports were adversely affected by the breakdown of one of the two ship loaders at Saldanha Bay in September 2006.

The commodity business benefited from the average international iron ore price increase of 19% with effect from 1 April 2006.

Sustainable development

Sustainability underpins the way Exxaro does business. It is reflected in a formal charter that defines our goals and commitment to stakeholders, in the structures that ensure sustainable development policies are cascaded throughout the group, in the integration of sustainability as a measurable performance indicator in the economic, social and environmental aspects of our business.

Exxaro understands the importance of long-term business sustainability and guarding against a short-term focus to survive in the modern global business world. As a mining group, the challenge we face is to demonstrate that the way we approach our business contributes to sustainable development: that social, environmental and economic impacts of mining – both positive and negative – are accounted for and managed in a transparent and accountable way.
A formal policy sets out the Exxaro standards and guidelines for sustainability, focused on the following areas:

- Financial
- Governance, ownership and control
- Resource utilisation
- Workplace
- Environmental
- Community and external stakeholders
- Suppliers
- Customers.

In formulating a group-wide approach to sustainability, Exxaro is guided by the considerations of South African legislation, as well as recommendations on corporate governance and international benchmarks such as the Global Reporting Initiative (GRI) and the Global Compact. As we integrate the Eyesizwe operations and the Namakwa Sands into Exxaro, the focus will be on standardising data collection and analysis for meaningful stakeholder reporting that complies with the guidelines of King II, GRI and the Global Compact. Full details of our progress, targets and challenges will be published in the 2007 annual report. In the interim, each operation will produce a report that highlights its sustainable development footprint and sets out management's commitment to respond to impacts identified.

A model for delivery

Exxaro's approach to sustainability begins at the top – in our country and in our group. Given our belief that sustainability is the foundation of our future, we use a tiered approach to ensure that our sustainable development initiatives complement government's identified priorities. A sustainability steering committee comprising senior management, reporting directly to the executive committee and board, provides overall strategic direction while a task team monitors initiatives and action teams are in place at each business unit. Management information feeds back to senior level to create a virtual circle of development that is both sustainable and meaningful because it responds to identified needs.

We continually engage with all stakeholders for their feedback on our formal stakeholder charter, which helps us determine targets for specific initiatives. Our approach synthesises all these elements into a clear understanding of what we want to achieve and how we will do so through a framework that is both practical for Exxaro and meets the unique needs of our stakeholders.

Socio-economic assessments have been conducted at all Exxaro's business units and detailed reports are available to interested parties on www.exxaro.com.

We separate our key elements on the basis of urgency and relevance to Exxaro, including the impact on our business and the inherent risk. Some are already well developed and performance needs to be maintained. In others, significant progress is being made to bring performance to appropriate levels.

Safety

Regrettably, and despite excellent safety achievements at several mines, we lost six colleagues during 2006 and we extend our deepest condolences to their families and friends. Five of these fatalities occurred in two incidents when three colleagues lost their lives in a vehicle accident at Glen Douglas, two colleagues died in a roof fall at Tshikondeni and one died at the group's training facility in Lephalale. A further fatality occurred at Grootegeluk mine at the end of January 2007 and another at Rosh Pinah mine in March 2007. Thorough investigations were conducted in all cases and the lessons learned from each incident incorporated into our ongoing safety programme focused on an injury-free workplace. The safety of our people is a cornerstone of our business, and by making this target a collective responsibility, we hope to reach and sustain it sooner. The lost-time injury frequency rate per 200 000 man-hours worked (LTIFR) improved from 0,52 for 2005 to 0,42 for the current year. A target of 0,30 has been set for 2007, constituting a 30% improvement on actual performance for 2006.

With the inclusion of the business units of the former Eyesizwe Coal, 71% of the business units within the group have obtained international health and safety certification (OHSAS 18001). The group has set a target of 100% compliance by December 2007.

Occupational health and hygiene

In 2006 we saw the continuing decline in the number of compensated occupational diseases. The two biggest contributions to occupational diseases in Exxaro are noise induced hearing loss (NIHL) and occupational tuberculosis.

Seven of our business units reported no new cases of occupational disease.

Reducing employee exposure to occupational health hazards continues to be our focus in order to achieve zero occupational diseases. Initiatives to reduce noise induced incidents in 2007 include creating awareness and improving the hearing conservation programme. Exxaro is committed to achieving the mining sector targets of zero NIHL and silicosis by 2013.

Programmes for HIV/Aids counselling and voluntary testing have been introduced at most of the South African operations of the group. This includes awareness, training of peer educators, voluntary counselling and testing, and a disease management programme which has more than 80% retention. The extension of antiretroviral programmes to all the group's businesses is progressing well, with most employees who tested HIV-positive during the year now enrolled on the disease management programme.

Environment

The group has an integrated, enterprise-wide risk management programme in place which evaluates environmental risk management and enhances the company's environmental performance.

Many operations in our group already have international ISO14001 certification, which ensures high standards and effective policies on safety, health and environment (SHE) management.

Ensuring certification for Exxaro's remaining operations will be a priority for 2007. Emphasis will also be placed on continuously minimising and mitigating the environmental footprint of our operations. Exxaro is committed to a transparent stakeholder engagement process throughout the various stages of mining. As we integrate the new operations, we will use this opportunity to align our stakeholder reporting framework to the Global Reporting Initiative guidelines for reporting against sustainable development principles.

Our people

Exxaro's current staff complement is 8 277, which will rise to over 9 520 with the acquisition of Namakwa Sands. Building on the leading practices entrenched by our predecessors, our focus will remain on exceeding compliance targets in South Africa by training and development to maximise individual potential – and reduce the shortage of skills in our industry – equality and safety in the workplace, meeting our employment equity targets and improving standards of living in our stakeholder communities.

Exxaro's employment equity reports at 28 February 2007 show that we have achieved the following levels of representation by designated groups (as per mining charter definition, historically disadvantaged South Africans (HDSAs) include blacks, coloureds, Indians, white females):

• HDSA overall	72%
• HDSA in management categories	35%

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• HDSA senior management	22%
• HDSA middle management	42%
• HDSA first-line management	28%
• HDSA board	60%
• Women overall	11%

An integral part of our empowerment transaction was broadening our shareholder base to include employees. Through the MPower share incentive plan, Exxaro employees will own over 3% of the group – transferring meaningful value, aligning the interests of employees with the group and giving us a crucial tool to attract and retain critical skills. In November 2006, 7 186 employees became shareholders in a transaction valued at over R583 million.

Acknowledgements

In August 2007, I will retire after a career spanning 41 years in the South African mining industry and hopefully having made some contribution to the transformation of the mining industry. In the past decade, I was privileged to be involved in the unbundling from Iscor and formation of Kumba Resources and the subsequent separation of that company into Exxaro and Kumba Iron Ore. Simultaneously, in my capacity as chief executive and as president of the Chamber of Mines, I was party to wide-ranging interaction between industry and government in developing equitable legislation to support the fundamental transformation and globalisation of a centuries-old South African mining sector. They have indeed been exciting times and I was fortunate and honoured to play a role.

On my retirement, Sipho Nkosi – one of the founders and a dynamo of the Eyesizwe group – will become chief executive officer of Exxaro, bringing his considerable experience, acumen and energy to bear on this new group. We have worked together in one form or another for almost a decade, particularly closely in the years leading up to Exxaro's formation. I have full confidence in Sipho's ability to lead Exxaro towards its full potential and wish him every success and fulfilment in doing so.

There were many participants in Kumba Resources' ground-breaking empowerment transaction – from shareholders Anglo American plc and the Industrial Development Corporation to numerous government departments – most notably minerals and energy – the JSE Limited, the competition authorities and the various advisors to the parties. On behalf of the board, I thank all these role players for their constructive input and resolve in a journey that was not always easy or straightforward.

A unique spirit has long characterised this group – under any name. That spirit permeated our transition to Exxaro – we are truly indebted to the teams that worked tirelessly on the transaction and those that continued with business as usual throughout change on such scale, to the many excellent people who elected to remain with Exxaro and those who have since joined our group. This combination of skills and assets has produced a formidable group – one fully capable of powering possibility.

The people of Namakwa Sands will add another exciting dimension of skill and commitment to our group and we look forward to again expanding our team. We trust that the authorities will assist in speedily approving the required conditions to implement this acquisition.

I thank the outgoing board members of Kumba Resources, particularly chairman Allen Morgan, and Eyesizwe Coal for their counsel and commitment. We look forward to working with the newly appointed and capable board of Exxaro as we continue the process of building South Africa's flagship empowerment resources group.

Lastly, I thank all my colleagues in Kumba Resources and Exxaro for their contribution to our success and for their support. It was a privilege to have been a part of those teams, the best in the industry.

Outlook

Commodity markets are expected to remain strong in the year ahead. In our coal portfolio, robust markets for both lump and fine coal and good physical performances from our seven coal mines should underpin prospects for continually increasing production towards our target of 75Mtpa by 2014. The mineral sands market has mixed prospects, with prices expected to increase for zircon and pigment, but trend down for slag. In the base metals sector, zinc prices are expected to remain high although declining slightly off the peaks of recent years.

Annual price negotiations were recently concluded for the iron ore sector, with an agreed increase of 9,5% per tonne for the 12 months to March 2008.

The people of Exxaro have proved themselves adept masters of change and we expect no less in the year ahead as we integrate the Eyesizwe operations and, following the necessary approvals, begin the proposed Namakwa Sands integration.

As indicated ahead of our listing, Exxaro is ideally placed to become a significant market player in coal and mineral sands and to provide a unique listed investment opportunity into these commodities.

Fauconnier

Dr Con Fauconnier
Chief executive officer

6 March 2007