

Report of the directors

The directors have pleasure in presenting the annual financial statements of Exxaro Resources Limited (Exxaro) and the group for the year ended 31 December 2006.

Change of name

The group changed its name from Kumba Resources Limited to Exxaro Resources Limited on 2 November 2006 after the adoption of a special resolution at a general meeting of shareholders held on 2 November 2006.

Nature of business

Exxaro, incorporated in South Africa, is a mining group of companies focusing on extracting and processing a range of minerals and metals including coal, heavy minerals, base metals, and selected industrial minerals. Exxaro also holds a 20% interest in Sishen Iron Ore Company (Pty) Limited which extracts and processes iron ore reserves.

Corporate governance

The board endorses the Code of Corporate Practice and Conduct as set out in the King II Report on Corporate Governance and has satisfied itself that Exxaro has complied throughout the period in all material aspects with the King II code. A detailed report appears on page 45.

Registration details

Exxaro is a listed company on the JSE Limited. The company registration number is 2000/011076/06. The registered office is Roger Dyason Road, Pretoria West, Republic of South Africa, 0002.

Activities and financial results

An overview of the activities and performance of the group and the various divisions of the group are contained in the chief executive officer's review on pages 15 to 37. This report is unaudited.

Property, plant and equipment

Capital expenditure for the period amounted to R2 010 million (2005: R1 044 million).

Shareholders' resolutions

At the fifth annual general meeting of shareholders, held on 12 April 2006, the following resolutions were passed:

- renewal of the authority that the unissued shares be placed under the control of the directors
- general authority to issue shares for cash
- amendment of the Kumba Resources Management Share Trust Deed

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- special resolution to authorise directors to repurchase company shares
- special resolution to amend the articles of association

At the general meeting of shareholders, held on 2 November 2006, the following resolutions were passed:

- special resolution of name change from Kumba Resources Limited (Kumba) to Exxaro Resources Limited (Exxaro)
- sale of 79,38% of the shares held by Kumba in Sishen Iron Ore Company (Pty) Limited (SIOC) to Kumba Iron Ore Limited (Kumba Iron Ore)
- unbundling of shares in Kumba Iron Ore to Kumba shareholders
- special resolution for pro rata repurchase of 38 331 012 shares at R45,99 per share
- issue of 65 334 843 shares for cash to Main Street 333 (Pty) Limited (Main Street) at R29,86 per share
- special resolution of specific repurchase of 10 million ordinary shares from Anglo South Africa Capital (Pty) Limited at R45,99 per share
- allotment and issue of 10 million ordinary shares to the market
- waiver of mandatory offer by Main Street to acquire all the shares in Exxaro
- special resolution to repurchase shares from Main Street in the event of a purchase consideration adjustment in terms of the Eyesizwe acquisition due to the occurrence of the New Clydesdale Colliery adjustment event
- special resolution to repurchase shares from Main Street in the event of a purchase consideration adjustment in terms of the Eyesizwe acquisition due to the Mafube adjustment event
- adoption of Exxaro Employee Empowerment Participation Scheme and – Trust
- issue of shares for cash to Exxaro Employee Empowerment Participation Scheme Trust
- special resolution to repurchase shares in terms of article 39 of Kumba's articles of association relating to the Exxaro Employee Empowerment Participation Scheme
- adoption by SIOC of the SIOC Employee Share Participation Scheme and – Trust
- amendment of existing Kumba Resources Management Trust Deed
- adoption of new share incentive plans
- authorisation of directors to allot and issue ordinary shares pursuant to the new share incentive plans
- authorisation and ratification of conclusion of Share Incentive Schemes Agreement between Kumba and Kumba Iron Ore, the Kumba Resources Management Share Trust and the Kumba Iron Ore Management Share Trust
- adoption by Kumba Iron Ore of the Kumba Iron Ore Management Share Scheme and the Kumba Iron Ore Management Share Scheme Trust and the related share incentive plans
- special resolution for amendment of articles of association
- authorisation of directors to take all necessary steps to implement the special and ordinary resolutions

Exxaro and its subsidiaries have passed no other special or ordinary shareholders' resolutions of material interest or of substantive nature.

Share capital

The total number of shares in issue increased during the year to 351 277 206.

The increase can be summarised as follows:

	Date of issue	Number of shares
Opening balance		306 162 251
Issued in terms of the Kumba Management Share Option Scheme due to options exercised at prices ranging from R5,86 to R115,70	1 January 2006 to 27 November 2006	7 432 220
Issued in terms of the Employee Empowerment Participation Scheme at R16,41	28 November 2006	10 618 974
Shares repurchased at R45,99	28 November 2006	(38 331 012)
Issued in terms of the empowerment transaction at R29,86	28 November 2006	65 334 843
Issued in terms of the Kumba Management Share Option Scheme due to options exercised at prices ranging from R8,48 to R114,78	29 November 2006 to 31 December 2006	59 930
		351 277 206

Shareholders

An analysis of shareholders and shareholdings appears on page 203 of the annual report.

Dividend payments

Dividend number eight

Interim dividend number eight of 180 cents per share was declared in South African currency in respect of the period ended 30 June 2006.

The dividend was paid on Monday, 11 September 2006 to shareholders recorded in the books of the company at the close of business on Friday, 8 September 2006. To comply with the requirements of STRATE the last day to trade cum dividend was Friday, 1 September 2006. The shares commenced trading ex dividend on Monday, 4 September 2006 and the record date was Friday, 8 September 2006.

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Special unbundling dividend

Special unbundling dividend of 185 cents per share was declared in South African currency in respect of the empowerment transaction. The special dividend was paid on Monday, 27 November 2006 to shareholders recorded in the books of the company at the close of business on Friday, 24 November 2006. To comply with the requirements of STRATE the last day to trade cum dividend was Friday, 17 November 2006. The shares commenced trading ex dividend on Monday, 20 November 2006 and the record date was Friday, 24 November 2006.

Investments and subsidiaries

The financial information in respect of investments and interests in subsidiaries of the company is disclosed in annexures 2 and 3 to the financial statements.

As part of the empowerment transaction, Exxaro disposed of 79,38 % of its direct interest in Sishen Iron Ore Company (Pty) Limited (SIOC). SIOC subsequently issued shares to an employee empowerment participation scheme trust and Exxaro's remaining 20% interest has been equity accounted with effect from 1 November 2006.

Through its wholly-owned subsidiary Exxaro Coal (Pty) Limited, Exxaro acquired 100% of Eyesizwe Coal (Pty) Limited with effect from 1 November 2006.

Subsequent events

On 19 January 2007 Exxaro announced that, pursuant to the empowerment transaction, it had exercised the options to acquire the Namakwa Sands mineral sands operation and a 26% interest in a company to be formed to hold the Black Mountain lead-zinc mine and the Gamsberg zinc project. The acquisitions were approved shareholders and are subject to suspensive conditions pertaining to, amongst others, regulatory approvals and the conversion of mining and prospecting rights to new order rights. It is expected that all suspensive conditions will be satisfied during the second half of 2007.

The directors are not aware of any matter or circumstance arising since the end of the financial period, not otherwise dealt with in this report or in the group financial statements that would significantly affect the operations or the results of the group.

Empowerment transaction

At a general meeting of shareholders on 2 November 2006, approval was granted for the various transaction steps to give effect to the transformation empowerment transaction in terms whereof Kumba Iron Ore Limited was unbundled and the revised listing of Exxaro took place on 27 November 2006.

Prior to the unbundling of Kumba Iron Ore Limited as a dividend in specie, Kumba's investment in Kumba Iron Ore Limited was fair valued through profit and loss by R17 963 million.

To give effect to the empowerment transaction 65 334 843 shares were issued on 28 November to Main Street 333 (Pty) Limited at a share price of R29,86 per share. The fair value of the shares issued was R2 531 million, resulting in the recognition of a R580 million share-based payment black economic empowerment (BEE) credential expense in terms of IFRS 2 Share-based payments (refer note 4).

Directorate and shareholdings

The names of the directors in office at the date of this report are set out on page 39.

In terms of article 15.2 of the articles of association, the following directors appointed to the board with effect from 28 November 2006 will retire and, being eligible, offer themselves for re-election:

U Khumalo
VZ Mntambo
RP Mohring
PKV Ncetezo
N Nyembezi-Heita
N Sowazi
DR Zihlangu

The following directors are required to retire by rotation in terms of article 16.1 of the articles of association at the forthcoming annual general meeting:

PM Baum
JJ Geldenhuys
Dr D Konar

These directors will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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The following directors were in office from 1 January to 27 November 2006 and resigned from office on 28 November 2006:

CF Meintjes
BE Davison
AJ Morgan (Chairman)
WA Nairn
CML Savage
Dr NS Segal
F Titi
PL Zim

A chairman and two additional non-executive directors will be appointed in 2007.

Company secretary

The company secretary is MS Viljoen. The company secretary's registered address is:

Roger Dyason Road	PO Box 9229
Pretoria West	Pretoria
0002	0001
Republic of South Africa	Republic of South Africa

Independent auditors

The auditors of the company, Deloitte & Touche, will continue in office in accordance with section 270(2) of the Companies Act, 1973, of South Africa.

Change in accounting policies

The accounting policies are consistent with those applied in the annual financial statements for the year ended 31 December 2005 except for the change disclosed in note 2 to the financial statements.