

Directors' report

(company registration number 2005/015852/06)

For the year, profit attributable to shareholders of R7.2 billion was achieved. This was R4.0 billion higher than the R3.2 billion achieved in the previous year. Earnings per share of R22,80 and headline earnings per share of R23,02 were achieved for the year.

The directors have pleasure in presenting the annual financial statements of Kumba Iron Ore Limited (Kumba) and the group for the year ended 31 December 2008.

Nature of business

Kumba was incorporated in South Africa on 16 May 2005 and commenced trading in November 2006 following the unbundling of Kumba from Exxaro Resources Limited. Subsequent to unbundling Kumba listed on the JSE Limited (JSE) on 20 November 2006 as the only pure play iron ore company on the JSE.

Kumba is a mining group of companies focusing on the exploration, extraction, beneficiation and marketing and sale of iron ore. Kumba produces iron ore in South Africa at Sishen Mine in the Northern Cape Province and at Thabazimbi Mine in the Limpopo Province.

The nature of the businesses of the significant operating subsidiaries, associates and joint ventures is set out in annexures 1 and 2.

Corporate governance

The board endorses the Code of Good Corporate Practices and Conduct as contained in the King II report on corporate governance and has satisfied itself that Kumba has complied throughout the year in all material aspects with the code and the Listings Requirements of the JSE. The corporate governance report is set out on pages 34 to 43.

Financial results

Operating results

For the year, profit attributable to shareholders of R7.2 billion was achieved. This was R4.0 billion higher than the R3.2 billion achieved in the previous year. Earnings per share of R22,80 and headline earnings per share of R23,02 were achieved for the year.

Capital expenditure

Capital expenditure on the Sishen Expansion Project (SEP) to date is R4.2 billion, with R927 million incurred during 2008 and approximately R365 million expected to be incurred in 2009.

As at 31 December 2008 revenue of R579 million and expenses of R209 million were capitalised (net R370 million operating profit) to the project relating to the period 1 January to 31 May 2008. The capitalisation of revenue and expenses ceased on 1 June 2008 as substantially all the activities undertaken to bring the jig plant to the location and condition necessary for it to be capable of operating in the manner intended by management had been completed.

The Sishen South project was approved on 31 July 2008. To date R702 million of the total R8.5 billion capital expenditure has been incurred with approximately R2.3 billion expected to be incurred in 2009 and R3.4 billion in 2010.

Net debt

The group's net debt position at 31 December 2008 has reduced to R48 million from R2.6 billion as at 31 December 2007 before the payment of the final 2008 dividend. A R5.4 billion term debt facility was secured during 2008 to fund future capital expenditure.

Accounting policies

Kumba adopted the revised IAS 23 Borrowing costs before its effective date, with effect from 1 January 2008. IAS 23 requires the capitalisation of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The requirements of the standard have been applied retrospectively from the date when borrowing costs were first incurred in 2006. The effect on basic earnings per share is an increase of 29 cents and 26 cents for the years ended 31 December 2008 and 2007 respectively. The effect on headline earnings per share is an increase of 30 cents and 26 cents for the years ended 31 December 2008 and 2007 respectively.

Share capital

Authorised capital

The company's authorised share capital of 500,000,000 shares remained unchanged during the year.

Shares issued

A further 2,357,920 shares were issued during the year in terms of the Kumba Management Share Option Scheme. Of the total number of shares in issue 1,795,410 shares are held by the Kumba Iron Ore Management Share Trust to be utilised to settle the obligations to employees of Kumba and Exxaro Resources Limited under the Management Share Option Scheme (refer to note 22 of the group annual financial statements).

Unissued shares

The directors are authorised to issue unissued shares until the next annual general meeting. Shareholders will be asked to extend the authority of the directors to control the unissued shares of the company at the forthcoming annual general meeting, up to a maximum of 5% of the issued capital.

Dividends

An interim dividend of R8,00 per share was paid on 25 August 2008. A final dividend of R13,00 per share was declared on 13 February 2009 from profits accrued during the financial year ended 31 December 2008. The total dividend for the year amounted to R21,00 per share.

The estimated total cash flow of the final dividend of R13,00 per share, payable on 16 March 2009, is R4.1 billion.

The board of directors is satisfied that the capital remaining after payment of the final dividend is sufficient to support the current operations and to facilitate future development of the business.

Directors

The names of the directors in office during the year and at the date of this report are set out on page 43. The remuneration and fees of directors are set out on pages 51 to 58.

Ras Myburgh handed over the role of chief executive officer of Kumba to Chris Griffith on 1 July 2008, whereupon Ras began his secondment to South Africa's national electricity supplier – Eskom.

On 14 December 2008, ZBM Bassa was appointed as an independent non-executive director and chairman of the audit and risk committee of Kumba.

The following directors retire by rotation in terms of the articles of association but are eligible and offer themselves for re-election as directors:

- Cl Griffith
- ZBM Bassa
- DD Mokgatle
- ND Moyo
- AJ Morgan

Directors' report continued

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Holding company and related parties

Anglo American plc is the group's ultimate holding company. The effective interest in the group of 62.95% is held through Anglo South Africa Capital (Pty) Limited (53.22%) and Stimela Mining Holdings (Pty) Limited (9.73%).

Auditors

Deloitte & Touche continued in office as auditors of Kumba and its subsidiaries. At the annual general meeting on 20 March 2009, shareholders will be requested to reappoint Deloitte & Touche as auditors of Kumba for the 2009 financial year.

Post-balance sheet events

The directors are not aware of any matter or circumstance arising since the end of the year and up to the date of this report, not otherwise dealt with in this report.

Going concern statement

The directors have reviewed the group's financial budgets with their underlying business plans for the period to 31 December 2009. In light of the current financial position and existing borrowing facilities, they consider it appropriate that the annual financial statements be prepared on the going-concern basis.

Company secretary

The company secretary of Kumba is VF Malie. His business and postal addresses appear on the inside back cover.

Special resolutions

On 28 May 2008 the shareholders of Kumba resolved that the company and any of its subsidiaries may from time to time be authorised to acquire of the company's own shares subject to the articles of association of the company, the provisions of the Companies Act and the Listings Requirements of the JSE.

Legal proceedings

During 2007, Lithos Corporation (Pty) Limited (Lithos) increased its claim for damages brought against Kumba from US\$196 million to US\$421 million. Kumba continues to defend the merits of the claim and is of the view and has been so advised, that the basis of the claim and the quantification thereof is fundamentally flawed. A trial date has been provisionally allocated, being 8 March 2010 to 2 April 2010. Lithos has put up security for costs of R1.3 million to cover Kumba's legal costs for the first seven days and if the trial exceeds seven days further security for costs will be applied for. No liability has been recognised for this matter.

Kumba has initiated arbitration proceedings against La Societe Des Mines De Fer Du Senegal Oriental (Miferso) and the Republic of Senegal under the Rules of Arbitration of the International Chamber of Commerce. The arbitration process will commence during the third quarter of 2009. These proceedings are confidential in nature.

Kumba and ArcelorMittal have agreed to arbitration to resolve the differences of interpretation of the Sishen Supply Agreement. Arbitration proceedings were initiated by Kumba. Arbitrators have been appointed and the matter has been enrolled for hearing during the first half of 2009. These proceedings are confidential in nature.