

Chief executive officer's review

126%

Increase in operating profits

50%

improvement

LTIFR

Calendar year 2008 was a period of many opportunities and considerable challenges across the private and public sectors, locally and internationally. For Kumba, the first three trading quarters provided the solid foundation to withstand a marked global downturn in iron ore demand in the final quarter and deliver record financial results.

Our group recorded several highlights, ranging from financial results that reflect a 126% increase in operating profits to improved safety performance and awards for our people practices. While the latter are summarised in the Chairman's statement, they will be detailed in our sustainable development report to be published in April this year.

Safety

On the journey to our goal of zero harm, the 2008 group safety performance – measured in terms of lost-time injuries – reflected a 50% improvement on the prior year. In September 2008, Thabazimbi Mine set a new safety record of 366 days without a lost-time injury and six years without a fatality. Sishen Mine achieved a lost-time injury frequency rate (LTIFR) of 0.12, compared to 0.23 in 2007. Regrettably, despite this significant improvement in LTIFR, Mr Kagiso Peace Leboa was fatally injured at Sishen Mine in April, as reported previously. The board again offers its deepest condolences to his family and friends.

In the second six months of the year, there were no fatalities at Kumba. For all of us, this was an important demonstration of what we can achieve with the correct attitude, procedures and discipline.

People

Kumba's long-standing focus on developing the full potential of its people is paying dividends in the depth of the group's pool of available talent. Some 6% of our annual operating budget is spent on people development; more than double the national average. The group's skills development programme supported around 700 individuals at a cost of R85 million in 2008, including graduate professionals in training, bridging school students, apprentices, and employees in Adult Basic Education and Training (ABET) programmes.

While we were very pleased with the awards we received during the year for our people development (i.e. Kumba was ranked first in the skills development category of the 2008 *Financial Mail Top Empowerment Companies* awards), our aim is continuous improvement. Accordingly, we conducted a number of surveys among employees in 2008, with almost 12,000 responses painting a clear picture of Kumba's strengths and weaknesses. Specific interventions are being developed to address areas for improvement and ultimately these will be incorporated into the organisational culture programme.

Transformation

Within Kumba, steady progress is being made in transforming our group into an equitable, representative and empowering workplace. Notable achievements during the year included reaching our employment equity target of 40% of top managers being historically disadvantaged South Africans (as per the mining charter), and exceeding the women in mining target of 10%. Substantial management attention is being given to improving the participation of women in core mining skills categories.

Through Envision, our employee share participation scheme, most of our staff members are also shareholders in Kumba. Since its formation in November 2006, 4,363 participating employees have received a total of R43 million in dividends. A further R8,000 will be paid per participant from the dividend declared in February 2009. Over time, and despite the freefall in equity prices during the year, meaningful value is being created for participants through both dividends and the appreciation of the Kumba share price from its listing level of R110 to R162 at 31 December 2008.



Overall, we believe that merely focusing on compliance to transformation targets is not enough but that we should exceed these. Our drive towards inclusivity and representation at all levels remains in place.

Business performance

The global economic slowdown, that started with the sub prime crisis, rapidly moved into other areas towards the end of 2008. The mining sector has been particularly affected as demand fell for various commodities, along with price reductions for virtually all our products.

Kumba's 2008 record financial results are only partly attributable to record iron ore price increases in recent years. They also reflect growing production volumes as the jig plant ramps up, despite the impact of reduced demand for iron ore and subsequent lower sales in the final quarter.

Against this background, Kumba – in tandem with the Anglo American group – critically reviewed its capital expenditure plans for 2009 and has taken decisive action, reducing planned expenditure by around 20% to some R4.0 billion (US\$425 million). Management will continue to review capital expenditure and costs against developing market conditions. Although capital spend has been re-evaluated, the Sishen South project remains on track with expenditure prioritised along the critical path.

Kumba's high-quality iron ore is produced at low cost on a delivered basis, and the company is thus well placed to weather current market volatility. In the present environment, Kumba's Sishen Mine will look to secure export volumes in the short term by focusing on increasing the quality of products to its customers, even though this may marginally reduce volumes.

We will also concentrate on making a more meaningful impact on the rest of the value chain, such as ports and shipping, to optimise returns for shareholders.

Operational performance

Sishen Mine

At Sishen Mine production increased 15% year-on-year to 34Mt.

The dense medium separation (DMS) plant continued to perform well, achieving stable production of 28.4Mt for 2008. Other higher cost production initiatives (to offset jig plant shortages in the first half of 2008) added 0.9Mt.

The jig plant commenced production towards the end of 2007 (0.3Mt), after a delayed start due to the need to re-cast the crushers. As a result of the late start and some technical difficulties 2008 production was unlikely to meet the anticipated 8Mt. During the review period, however, the seventh and eighth jig modules were commissioned ahead of schedule, and the sample plant commissioned in August. At the interim stage, we noted that production of some 5Mt was more likely for the full year. Actual annual production was slightly less, at 4.7Mt, due to the drive for higher quality in the final quarter to counteract weak demand.

Notwithstanding a 15% increase in production, export volumes for the period rose only 4% to 24.9Mt, due to Transnet rail shortages in the third quarter and shiploader repairs as well as weaker demand for iron ore in the fourth quarter. This resulted in a build up of stock at both Sishen Mine and the Saldanha port.

In the final quarter we took the strategic decision to stockpile quality lump ore to meet still-strong medium to long-term demand and instead sell lower priced fine ore which was in demand at the time.

Given Sishen Mine's inland location, transport logistics are an important element in maintaining margins and export volumes. During the review period, state transport utility Transnet's performance on the railway line from Sishen to Saldanha benefited greatly from its decision to make more locomotives available in the second half of 2008.

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In the port of Saldanha, Transnet introduced dual shiploading in early 2008, greatly facilitating enhanced throughput capacity. In early October, Transnet took both shiploaders out of operation after it had detected steel buckling. Emergency repairs were completed in just over a week.

Thabazimbi Mine

Thabazimbi Mine recorded good production for the year, with sales in line with the requirements of its customer, ArcelorMittal South Africa. Commendably, the mine's teams produced a record safety performance in 2008.

We reported last year that Thabazimbi's life-of-mine was extended to 2014 by including reserves now considered economical to mine given the change in iron ore prices over recent years. In addition, the company has appointed a project team to conduct a feasibility study on exploiting the banded iron ore formation at Phoenix. This project can potentially produce 3.4Mtpa of lump ore and sinter feed material for over 20 years. Alternative markets are being evaluated as part of the study, which will continue into 2010.

Sishen South Project

Facts about Sishen South

- 9 million tonnes per year of direct shipping ore (DSO)
- 373 million tonnes mineable resource
- Over R8.5 billion nominal capital expenditure
- 700 direct jobs, 4,000 indirect jobs
- Life-of-mine initially 20 years, extension probable

The Sishen South project was approved in July 2008. This R8.5 billion investment – R2.5 billion of which has been committed to date – involves developing a greenfields open cast operation some 80km south of Sishen Mine. A new order mining right and the necessary integrated water-use licence were granted in the second half of the year.

To fund this expansion Kumba has secured a five-year, R5.4-billion funding facility which is more than adequate to meet the group's needs in 2008 and 2009. Planned capital expenditure for Sishen South in 2009 has been optimised along the critical path and the project remains on track for first saleable production in 2012.

In August 2008, Kumba and, Transnet, announced the expansion of the Sishen-Saldanha iron ore export channel from 47Mtpa to 60Mtpa: 9Mtpa of which has been allocated to Kumba for the development of Sishen South. The iron ore export channel expansion represents a capital investment of over R4 billion in real terms by Transnet for additional rolling stock, upgrading electricity infrastructure, constructing bypass loops and a 36km rail link by 2012 to service the new mine.

Sishen South is now firmly on track, with site earthworks, terracing and civil engineering projects well advanced.

Sustainability

Kumba remains committed to responsible mining practices: creating a safe and healthy working environment, training and developing employees, conserving the environment and natural resources, and maximising our potential to contribute socially and economically.

The goal of maximising our socio-economic contribution took a major step forward with the December 2008 launch of the Sishen Iron Ore Company (SIOC) Community Development Trust. This fulfils an undertaking we made ahead of listing to include community members as shareholders. Through its 3% stake in Kumba's SIOC activities, the trust has earned about R15 million to date for community development projects in the Northern Cape and Limpopo with another R4 million accruing from the next dividend.

This cash flow to the trust will increase significantly once the trust has repaid the loan advanced to acquire its shareholding in SIOC.

The main beneficiaries of the trust are neighbouring communities at Kumba's Sishen and Thabazimbi mines. Five independent community organisations have been identified as beneficiary trusts for channelling funds and resources to these communities.

Kumba's 2008 sustainable development report will contain a comprehensive review of the trust's activities and our other sustainability initiatives.

Prospects

The scale of change globally in late 2008 has massive implications for business – some short term and others where the impact may take much longer to manifest.

For the year ahead, we will focus on preserving cash, reducing costs and maintaining both the momentum and quality of our core activities with our current workforce. It is impossible to forecast how long this crisis will last, both in terms of demand for steel, and thus for iron ore, or for inventories to be worked through before we see a return to normal demand for iron ore. However, our long-term view of the iron ore market remains positive.

In South Africa, there are encouraging signs that inflation has peaked and the first interest rate cut since 2006 was announced at the end of the review period. This bodes well for alleviating the upward pressure on costs and comes at an opportune time for Kumba, given the flexibility (and concomitant cost) that will be required to manage the increasing geological complexity at Sishen Mine.

We believe that our superior product range, the strength of long-standing customer relationships, geographical market diversity, and good operating margin will sustain the group until the next market upturn.

Kumba is a well-run business – with good systems, influential shareholders and management depth – and we believe its ability to weather short-term challenges en route to sustainable long-term growth will be demonstrated in the year ahead.

Project pipeline and growth

The current market conditions (particularly commodity price stability and timing of projects) have forced us to re-evaluate our project pipeline and potential timing of these projects.

Kumba's goal is to increase Northern Cape production to 50Mtpa by 2013. Our project pipeline remains robust: with Sishen Mine's jig plant at full production of 13Mtpa in 2010, Sishen South coming on stream in 2012 and ramping up to 9Mtpa in 2013 and several other projects at feasibility or prefeasibility stages. The timing of these projects will be carefully assessed against prevailing market fundamentals.

Thanks

I would like to thank the board for the opportunity to lead this great company and my executive team for their support in my first six months in office. The commitment displayed daily by Kumba's formidable teams has only strengthened my confidence in this group's ability to achieve its goals. Equally, we are guided by a board of directors, headed by Lazarus Zim, that has shown great insight and guidance in these trying times.

Kumba also benefits from the strength of its major shareholder, Anglo American plc, through a number of shared services and the economies of scale of being part of a global group; and the shared values of the *One Anglo* programme that is now being rolled out across the group.

The support of our global base of customers through these turbulent times is greatly appreciated, as is that of our loyal suppliers.

Collectively, we face the future with confidence.



Chris Griffith
Chief executive officer

13 February 2009

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