

Chairman's statement

Kumba was granted new order mining rights for Sishen Mine and Thabazimbi Mine and a new mining right for the Sishen South project. These milestones significantly strengthen the security of the business.

Kumba's second full year as a listed group was marked by several significant milestones, including receiving new order mining rights and approval of the nine-million tonnes per annum (Mtpa) Sishen South project. The review period also brought some of the toughest management challenges in recent memory – from the impact of unprecedented power outages in South Africa to the global financial crisis that has plunged major economies into recession.

Kumba began trading on the JSE Limited (JSE) in November 2006 following South Africa's largest mining empowerment transaction which successfully unbundled Kumba Resources into two listed vehicles, Kumba Iron Ore Limited and Exxaro Resources Limited. The value of Kumba as a long-term pure-play iron ore investment was amply demonstrated in the strong growth of the share price in its first year, although the trading range in our second year reflected the market-wide turmoil that characterised the review period.

Regulatory environment

In April 2008, Kumba was granted new order mining rights for Sishen and Thabazimbi mines, a new mining right for the Sishen South project, and integrated water-use licences were issued for Sishen and Sishen South in terms of section 21 of the National Water Act, 1998. Thabazimbi's water-use license is expected to be granted in 2009.

The Sishen South mining right was officially executed in late 2008 and final discussions on executing those for Sishen Mine, as well as Thabazimbi Mine and its prospective expansion project (Phoenix) are under way.

With the required regulatory approvals now in hand, we can pursue our growth strategy with security and stability. However, we acknowledge that this custodianship of our natural resources, both minerals and water, carries with it the responsibility to deliver on the social and labour plans, as well as waste and water management plans we submitted in our various applications.



We understand that the provisions of legislation that govern our operations should not be taken lightly. It is therefore crucial that we deliver on our undertakings, not just to secure our future as a group, but because it is the right thing to do.

Trevor Manuel, Minister of Finance, announced in his budget speech in February 2009 that the implementation of the **royalty bill** has been deferred to 2010. This is a much welcomed development. Kumba and the Chamber of Mines are finalising the interpretations of the various definitions contained in the bill that relate to iron ore to clarify the correct royalty payments when the bill is passed.

The **mine health and safety amendment bill**, has been approved by the National Assembly, and the National Council of Provinces and is currently with the President. The bill contains certain onerous proposals that could hamper the industry's ability to attract and retain much needed scarce experience and human capital. The Chamber of Mines is addressing these with the authorities. Given that the safety of all is a common goal for both the industry and government, we are confident that an appropriate solution can be developed.

South Africa's pioneering **mining charter** will be reviewed in 2009, as agreed to by the key stakeholders in 2004. As an industry, there has been good progress in meeting the targets set in 2004. Kumba is a case in point: our own 2006 empowerment transaction created a group in which employees and communities are active shareholders, project development fully considers social and environmental issues, and empowerment is evident in every operational aspect from training and development to procurement practices. The group is already complying with the 2014 targets set in respect of BEE equity.

The group was rated first in the mining sector and seventh overall in the annual *Deloitte Best Company to Work For 2008* survey.

Our people

Kumba's progressive human resources policies were recognised on several fronts during the year:

- The group was the only mining company to receive a national good practice award from the Department of Labour in recognition of its contribution over the past two years towards the national skills strategy.
- Kumba was ranked first in the skills development category of the 2008 *Financial Mail Top Empowerment Companies* awards.
- The group was rated first in the mining sector and seventh overall in the annual *Deloitte Best Company to Work For 2008* survey.

This last award is particularly significant for Kumba because it builds on the accolades received by our predecessor Kumba Resources. It tangibly underscores the value we attribute to every one of our employees and their skills, and demonstrates the fulfilment they derive from a career with our group.

The sudden change in market conditions has brought about new challenges for Kumba.

Business environment

The present global economic meltdown is unprecedented in terms of scale and extent. Iconic companies have gone bankrupt, and household names are facing similar fates. In the past year, the value of stock markets around the world has almost halved from its peak to some US\$30 trillion. While in global terms South Africa has fared relatively well so far, we believe the implications of this crisis are still unfolding.

The USA is now officially in recession, as are Japan and the European Union, and global manufacturing has dropped to record lows with gross domestic product (GDP) levels low and declining across the globe. Equally, the effect of a drop in the Chinese GDP to 6.8% in the final quarter of 2008 had a worldwide multiplier effect.

In South Africa, GDP grew at 3.5% in 2008 and is now forecasted to drop to around 2.5% in 2009.

At the time of writing, the long-term strategies of steel makers and raw material suppliers have been superseded by short-term value-preservation plans across the board. For Kumba specifically:

- Most major steel mills have announced production cuts of up to 30% from the fourth quarter of 2008 as a result of weakening demand for steel and falling prices for their products. As a result, most iron ore producers have followed suit with production cuts.

- Lower utilisation of iron ore has resulted in large stockpiles of some 60Mt at Chinese ports (eight weeks of inventory compared with six weeks historically) and substantial iron ore inventories at steel mills. While the port stockpiles are down from highs of 90Mt, the sustainability or indeed source of this decrease has yet to be proven.
- In the South African steel market, demand is showing a similar drop off, with major producers announcing significant cutbacks and construction companies reporting postponed or cancelled orders. ArcelorMittal South Africa is reported in the media to have introduced a wide range of short-term interventions in response to falling demand for steel products. The company reportedly limited its steelmaking by 30% in the last quarter of 2008.

However, the market has been saved from complete collapse by the lower landed cost of iron ore to customers as a result of reducing freight rates, which are at five-year lows. For example, the spot freight rate from Saldanha to Qingdao in China has fallen from US\$76/t in May this year to US\$10/t six months later, protecting the operating margins of iron ore producers and providing a lower landed cost to steel producers.



The sudden change in market conditions has brought about new challenges for Kumba. Our foremost priority now is to ride out this turmoil as best as we can by improving efficiencies, spending wisely and working together with our customers to best manage the current crisis. In fact, we believe the current financial downturn is the ideal opportunity to reinforce the fundamentals of a well-run group.

In the medium to long term, the factors that have supported growth over the past eight years are still present, namely Chinese urbanisation and growth in emerging markets.

Corporate governance

Kumba has a competent and representative board of directors that has focused on establishing the governance systems under which the group now operates. These were designed to ensure compliance with the provisions of the King II report on corporate governance, South African corporate laws and the international governance standards of our major shareholder.

Kumba continues to prove its ability to meet legislative compliance and governance standards. As a board, we are confident that Kumba will remain a responsible custodian of its natural resources and a significant contributor to South Africa's growth. The group is committed to leading in and through transformation. While a lot has been done to transform Kumba into a fully representative organisation, significant challenges remain.

Thanks

Midway through the year, our founding chief executive officer, Ras Myburgh, handed over the role to Chris Griffith when he was seconded to Eskom, as part of Kumba's contribution to developing solutions to the country's energy needs. Chris is an experienced mining engineer and his expertise in greenfields developments is proving an asset to the group's growth strategies. We thank Ras for his contribution as chief executive.

Kumba's people are an inspiring and formidable team. In an often challenging year, they have again proven their willingness to meet ambitious targets and their ability to overcome the most daunting obstacles. We acknowledge with gratitude their contributions to our results.



Lazarus Zim
Chairman

13 February 2009

