Directors' report

(Company registration number 2005/015852/06)

The directors have pleasure in presenting the annual financial statements of the Kumba group (the group) as well as Kumba Iron Ore Limited (the company) for the year ended 31 December 2009.

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, marketing, sale and shipping 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, and is currently developing a new mine, Kolomela Mine, also in the Northern Cape Province.

The nature of the businesses of the group's subsidiaries, associates and joint ventures is set out in annexures 1 and 2.

Corporate governance

The group subscribes to the Code of Good Corporate Practices and Conduct as contained in the King II report on corporate governance and the board has satisfied itself that Kumba has complied throughout the year in all material aspects with the code and the Listing Requirements of the JSE Limited. The corporate governance report is set out on pages 15 to 23.

Financial results

The financial statements on pages 29 to 106 set out fully the financial position, results of operations and cash flows of the group and company for the financial year ended 31 December 2009.

Operating results for the year

Summary of the key financial results for the year ended 31 December:

Rand million	2009	2008	% Increase/ (decrease)
Revenue	**23,408**	21,360	10%
Operating profit	**12,880**	13,513	(5%)
Net finance costs	**(127)**	(251)	49%

Kumba's revenue increased by 10% to R23.4 billion on the back of a 37% increase in export sales volumes driven by demand from China, tempered by lower export volumes to Europe and Japan, lower domestic sales and lower iron ore export prices.

Operating profit decreased by 5% or R633 million, principally as a result of:

- Increased export sales volumes added R6.6 billion to operating profit; offset by the year-on-year weighted average decrease of 40% in benchmark export iron ore prices, which reduced operating profit by R5.4 billion; and lower domestic sales volumes due to the decline in domestic demand, which reduced operating profit by R377 million. The net effect of these factors was an increase in operating profit of R0.8 billion;
- A R308 million increase in profit from shipping operations. Total tonnes shipped increased by 15.3Mt from 6.2Mt to 21.5Mt during 2009. This increase in volume was offset by a decrease in the shipping margin achieved (average shipping margin – US$3/tonne in 2009). The unused portion of the provision raised in 2008 amounting to US$22.8 million (R191 million) was released during the year;
- The weakening of the average exchange rate of the Rand to the US Dollar (average exchange rates – R8.39/US$1.00 in 2009 compared with R8.25/US$1.00 in 2008), which contributed R301 million to operating profit, and lower net valuation gains over 2008 from US$ denominated monetary assets and derivative instruments, which reduced operating profit by R665 million;
- All of which was further offset by a R1.4 billion or 36% increase in operating expenses (excluding shipping expenses), as a result of the 35% increase in waste mined, 14% increase in volumes produced, and a 36% increase in logistics costs primarily driven by increased sales volumes during the year. This increase was further fuelled by inflation and offset by decreasing cost of diesel and blasting products and strict cost management.

Kumba's operating profit margin of 55% for the year (61% from mining activities) decreased by 8% from 63% (69% from mining activities) in 2008 as benchmark export iron ore prices decreased on average by 40% for the 2009/2010 iron ore year.

Attributable and headline earnings for the year were R21.88 (2008: R22.80) per share and R21.82 (2008: R23.02) per share respectively. Refer to note 20, 'Per share information', of the group annual financial statements for a detailed discussion and analysis of movements in the group's basic, diluted, headline and diluted headline earnings per share.

Directors' report
(Company registration number 2005/015852/06) (continued)

Financial position

Summary of the financial position as at 31 December:

Rand million	2009	2008	% Increase/ (decrease)
Total assets	**17,807**	16,703	7%
Interest-bearing borrowings	**3,914**	3,858	1%
Net asset value per share (R)	**22.73**	21.63	5%

Property, plant and equipment

The group incurred capital expenditure on property, plant and equipment of R4.0 billion for the year ended 31 December 2009 (2008: R2.6 billion) for the expansion of its operations (R2.8 billion), mainly on the development of Kolomela Mine (Sishen South Project) (R2.5 billion), and R1.2 billion to maintain its operations, mainly for the acquisition of mining equipment for Sishen Mine.

Capital expenditure – Kolomela Mine (Sishen South project)

The development of the Kolomela Mine continues and remains on budget and on schedule to deliver first production during the first half of 2012, ramping up to full capacity of 9Mtpa in 2013. Construction on the project is progressing well and mining operations commenced after the first blast on 17 September 2009.

To date 4Mt of material has been moved, project engineering is substantially complete and significant progress has been made on manufacturing and construction. In aggregate, R3.2 billion of capital expenditure (including R189 million of capitalised mining operating expenses) has been incurred to date, of which R2.5 billion was incurred during the year ended 31 December 2009 (2008: R702 million).

Interest-bearing borrowings

	31 Dec 2009	31 Dec 2008
Net debt (R million)	**3,023**	48
Interest cover (times)	**43**	33

The group's net debt position at 31 December 2009 is shown before the payment of the 2009 final dividend.

During the year Kumba secured a R3.2 billion term loan to refinance the revolving facility that was maturing in November 2009. To date R3.9 billion of the R8.6 billion term debt facilities has been drawn down to finance Kumba's expansion. Kumba was not in breach of any of its covenants during the year. The group had undrawn term facilities of R4.7 billion and undrawn uncommitted facilities of R3.4 billion at 31 December 2009.

Equity compensation plans

Refer to the detailed remuneration report on pages 33 to 41 and note 22, 'Equity-settled share-based payment reserve', of the group annual financial statements for a detailed discussion and analysis of movements in the group's various equity compensation plans available to executive directors and senior employees.

Accounting policies

Kumba changed its accounting policy in respect of the treatment of waste stripping costs in order to provide more reliable and relevant information about the effects of these costs on the entity's financial position and financial performance. The change in accounting policy had no effect on the financial position or performance of the group during 2009 due to the fact that Sishen Mine's pit profile is such that the actual stripping ratio is currently below the average life of mine stripping ratio and therefore no deferral is required.

The group adopted IFRS 8, Operating Segments, which replaces IAS 14, Segment reporting, and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented, as the previously reported business segment, mining (being mining, extraction and production of iron ore) has been split further into the different mines that the group operates as well as its shipping operations.

The group also adopted IAS 1 (revised). The revised standard requires that changes in equity resulting from transactions with owners (holders of instruments classified as equity) be presented separately from non-owner changes in equity (also known as other comprehensive income). In addition, specific disclosures for components of other comprehensive income have been introduced. The adoption had no effect on the financial position or performance of the group.

Segment results

Refer to note 37 for a detailed segmental analysis of the group's operating results for the year ended and financial position as at 31 December 2009.

Subsidiaries, joint ventures and associates

Full particulars of the group's investments in subsidiaries, associates and joint ventures are set out in annexures 1 and 2.

Acquisition during the year

On 15 July 2009 Sishen Iron Ore Company (Pty) Limited (SIOC) acquired Taurus Investments SA, an Anglo American company incorporated in Luxembourg, for a cash consideration of R115 million (US$14 million). This company was acquired to extend the benefit of the group's offshore operations by creating a European marketing hub to service the European, Middle East and North African markets as well as to establish collaboration with Anglo American plc's current operations in Luxembourg. Taurus was renamed Kumba International Trading SA.

The effective date of this transaction was 15 July 2009, as this is the date on which SIOC effectively obtained control by acquiring all the issued share capital.

The purchase consideration of US$14 million was allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the effective date. No goodwill was recognised on the acquisition.

Share capital

Authorised capital

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

Share movements

The group acquired 325,707 of its own shares through purchases on the JSE Limited during the year. The total amount paid to acquire the shares was R60 million. The shares have been utilised in the allocation of conditional share awards under the Kumba Bonus Share Plan. The shares are held as treasury shares and the purchase consideration has been deducted from equity.

On 21 August 2009 Kumba issued 953,660 shares to the management share option scheme. Options exercised under the management share option scheme during the year to 31 December 2009 resulted in 2,610,960 shares being issued (2008: 2,207,840 shares) with exercise proceeds of R132 million (2008: R75 million).

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 R7.20 per share was paid on 24 August 2009. A final dividend of R7.40 per share was declared on 17 February 2010 from profits accrued by the group during the financial year ended 31 December 2009. The total dividend for the year amounted to R14.60 per share.

The estimated total cash flow of the final dividend of R7.40 per share, payable on 15 March 2010, is R2.4 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 23. The remuneration and fees of directors as well as the directors' beneficial interest in Kumba are set out in the detailed remuneration report on pages 33 to 41.

Dr ND Moyo and Mr PM Baum resigned as non-executive directors on 12 January 2010. Mr DM Weston, Anglo American plc's Group Director of Business Performance and Projects, was appointed as a non-executive director on 10 February 2010.

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

- DD Mokgatle
- DM Weston
- GS Gouws

Directors' report
(Company registration number 2005/015852/06) (continued)

Holding company and related parties

Anglo American plc, incorporated in the United Kingdom, is the group's ultimate holding company. The effective interest in the group of 62.76% is held through Anglo South Africa Capital (Pty) Limited (53.06%) and Stimela Mining Holdings (Pty) Limited (9.70%).

The analysis of ordinary shareholders is given on pages 109 to 111.

Auditors

Deloitte & Touche continued in office as auditors of Kumba and its subsidiaries. At the annual general meeting on 31 March 2010, shareholders will be requested to re-appoint Deloitte & Touche auditors of Kumba for the 2010 financial year, and BW Smith as the designated auditor.

Company secretary

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

Going concern statement

The directors have reviewed the group's and company's financial budgets with their underlying business plans for the period to 31 December 2010. In the 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.

Management by third parties

None of the businesses of the company or its subsidiaries had, during the financial year, been managed by a third party or a company in which a director had an interest.

Special resolution

On 20 March 2009 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

ArcelorMittal SA Limited (ArcelorMittal)

An award was rendered in the arbitration between ArcelorMittal and SIOC, a subsidiary of Kumba. The arbitration related to ArcelorMittal's claim to be entitled to participate in the Kolomela Mine (Sishen South Project) currently under development by SIOC. On 27 October 2009, the Arbitration Panel issued an award in favour of SIOC and determined that ArcelorMittal is not entitled to participate in the project.

Lithos Corporation (Pty) Limited (Lithos)

Lithos is claiming US$421 million from Kumba for damages. 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. No liability has been recognised for this litigation.

La Société des Mines de Fer du Sénégal Oriental (Miferso)

Kumba initiated arbitration proceedings against Miferso and the Republic of Senegal under the Rules of Arbitration of the International Chamber of Commerce. The arbitration hearings took place during the third quarter of 2009. A ruling on the matter is expected during the first half of 2010.

Post-balance sheet events

On 6 January 2010, the SIOC Community Development SPV (Proprietary) Limited redeemed R336 million out of the total preference shares of R458 million issued to Kumba on 29 November 2006 as part of the group's funding of the acquisition of a 3% interest in SIOC. In preparing the consolidated annual financial statements for the year ended 31 December 2009, the SIOC Community Development SPV (Proprietary) Limited is considered a special purpose entity, is consolidated for accounting purposes and will continue to be consolidated until the funding is redeemed in full.

During January 2010 Kumba issued financial guarantees to the Department of Mineral Resources (DMR) to the value of R567 million in respect of the environmental rehabilitation and decommissioning obligations of the group.

The directors are not aware of any other 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.