

Directors' report

(company registration number 2005/015852/06)

The directors have pleasure in presenting the annual financial statements of Kumba and the group for the year ended 31 December 2007.

Nature of business

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

Kumba, incorporated in South Africa, is a mining group of companies focusing on the exploration, extraction, beneficiation and marketing and sale of iron ore. Kumba produces iron ore 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 period in all material aspects with the code and the Listings Requirements of the JSE. The corporate governance report is set out on pages 96 to 105.

Financial results

Operating results

Profit attributable to shareholders of R3.1 billion for the year was 8.3% lower than the R3.4 billion in the previous year, which was prepared on a basis consistent with that used for the preparation of the unaudited pro forma financial information contained in the financial results for the two months ended 31 December 2006, issued on 14 February 2007. Profit attributable to shareholders increased by 60% before taking into account the net increase in profit due to the once-off profit of the sale of the non-iron ore assets of R1.6 billion and the R153 million share-based payment expense arising from the disposal of a 3% interest in Sishen Iron Ore Company in 2006.

Earnings per share of 985 cents and headline earnings per share of 974 cents were achieved for the year.

Capital expenditure

Capital expenditure on the Sishen Expansion Project to 31 December 2007 was R3.3 billion, with R1.7 billion incurred during 2007 and approximately R1.0 billion expected to be incurred in 2008 and R0.6 billion in 2009.

Net debt

The group's net debt position at 31 December 2007 has reduced to R2.6 billion from R2.9 billion as at 31 December 2006. Based on historic forecasts, it is anticipated that net debt will increase to approximately R4.25 billion after taking into account the capital expenditure requirements for the Sishen South project.

Accounting policies

The group adopted IFRS 7, Financial Instruments: Disclosures (IFRS 7) and the related amendments to IAS 1, Presentation of Financial Statements and IFRIC 11, IFRS2 – Group and Treasury Share Transactions (IFRIC 11) with effect from 1 January 2007. IFRS 7 requires that every business disclose information on the significance of financial instruments and the nature and extent of risks arising from these financial instruments. The disclosure requirements of IFRS 7 have been applied retrospectively. The amendment to IAS 1 requires disclosure of the objectives, policies and processes for managing capital. IFRIC 11 provides guidance on applying IFRS 2, Share-based Payment in circumstances where an entity chooses or is required to buy its own equity instruments (treasury shares) to settle the share-based payment obligations. The adoption of this standard, the related amendment and interpretation has had no effect on the financial results and financial position of the group.

Comparative information

The pre-acquisition reserve as presented in the statement of changes in equity at 31 December 2006 that arose from the acquisition of Sishen Iron Ore Company was reclassified to the separate reserve classes.

Share capital

Authorised capital

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

Shares issued

A further 3,509,030 shares were issued during the year in terms of the Kumba Management Share Option Scheme.

Of the shares issued during the year 1,766,190 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 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 350 cents per share was paid on 10 September 2007. A final dividend of 400 cents per share was declared on 13 February 2008 from profits accrued during the financial year ended 31 December 2007. The total dividend for the year amounted to 750 cents per share.

The estimated total cash flow of the final dividend of 400 cents per share, payable on 17 March 2008, is R1,268 million.

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 at the date of this report are set out on pages 18 to 19. The remuneration and fees of directors are set out on pages 112 to 117.

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

- PM Baum
- GS Gouws
- PB Matlare

Holding company and related parties

Anglo American plc is the group's ultimate holding company. The effective interest in the group of 63.42% is held through Anglo South Africa Capital (Pty) Limited (53.61%) and Stimela Mining Holdings (Pty) Limited (9.81%).

Auditors

Deloitte & Touche continued in office as auditors of Kumba and its subsidiaries. At the annual general meeting on 28 May 2008, shareholders will be requested to reappoint Deloitte & Touche auditors of Kumba for the 2008 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.

Company secretary

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

Special resolutions

On 24 May 2007 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.

Legal proceedings

Lithos Corporation (Pty) Limited (Lithos) has 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. Pleadings have closed and a trial date is awaited. 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.

During 2007 ArcelorMittal paid an amount of some R60 million in respect of the export parity pricing element for 0.2Mt acquired during the period, the price of which it now disputes. This matter may potentially be subject to further arbitration.

No liability has been recognised for these matters.

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. This process is confidential in nature.

Kumba and ArcelorMittal have agreed to arbitration to resolve the differences of interpretation of the Sishen Supply Agreement. Arbitration proceedings have now been initiated by Kumba and are confidential. Arbitrators have been appointed.