

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements

for the period ended 31 December

Rand million	Land	Mineral properties	Residential buildings	Buildings and infrastructure	Machinery, plant and equipment	Mineral exploration, site preparation & development	Assets under construction	Total
1. PROPERTY, PLANT AND EQUIPMENT								
2007								
Cost								
Balance at beginning of period	36	621	46	222	2,820	325	1,954	6,024
Additions	36	–	5	6	256	–	1,816	2,119
Changes in decommissioning provision	–	–	–	10	(2)	–	–	8
Disposals and scrapping	(8)	–	–	–	(13)	–	–	(21)
Balance at 31 December 2007	64	621	51	238	3,061	325	3,770	8,130
Accumulated depreciation								
Balance at beginning of period	–	136	37	97	1,623	267	–	2,160
Depreciation charge	–	25	1	10	171	21	–	228
Disposals and scrapping	–	–	–	–	(6)	–	–	(6)
Balance at 31 December 2007	–	161	38	107	1,788	288	–	2,382
Carrying amount at 31 December 2007	64	460	13	131	1,273	37	3,770	5,748
2006								
Cost								
Acquisition of business	35	621	46	218	2,732	325	1,544	5,521
Additions	1	–	–	4	96	–	410	511
Changes in decommissioning provision	–	–	–	–	(2)	–	–	(2)
Disposals and scrapping	–	–	–	–	(6)	–	–	(6)
Balance at 31 December 2006	36	621	46	222	2,820	325	1,954	6,024
Accumulated depreciation								
Acquisition of business	–	132	37	95	1,594	264	–	2,122
Depreciation charge	–	4	–	2	34	3	–	43
Disposals and scrapping	–	–	–	–	(5)	–	–	(5)
Balance at 31 December 2006	–	136	37	97	1,623	267	–	2,160
Carrying amount at 31 December 2006	36	485	9	125	1,197	58	1,954	3,864

Additional disclosures

Included in the above items of property, plant and equipment are fully depreciated assets still in use with an original cost price of R353 million (2006: R370 million).

The group generated proceeds from the disposal of items of property, plant and equipment of R26 million (2006: R6 million).

The estimated replacement value of assets for insurance purposes amounts to R8.6 billion (2006: R5.9 billion).

A register of land and buildings is available for inspection at the registered office of the company.

1. PROPERTY, PLANT AND EQUIPMENT continued

Rand million	2007	2006
Capital commitments		
Capital commitments include all items of capital expenditure for which specific board approval has been obtained up to balance sheet date. Capital expenditure still under investigation for which specific board approvals have not yet been obtained are excluded.		
Capital expenditure contracted for plant and equipment	589	2,477
Capital expenditure authorised for plant and equipment but not contracted	1,185	3,176
Capital expenditure will be financed principally from borrowing facilities, available cash resources and cash generated from operations.		
Capital commitments for Thabazimbi Mine (a captive mine) will be financed by ArcelorMittal.		
Capital expenditure contracted for plant and equipment	2	1
Capital expenditure authorised for plant and equipment but not contracted	2	2

	Livestock	Game	Total
2. BIOLOGICAL ASSETS			
Acquisition of business	–	4	4
Gains attributable to physical changes and price changes	1	–	1
Reclassification from inventory	2	–	2
Balance at 31 December 2006	3	4	7
Acquisitions	–	1	1
Disposals	(1)	(2)	(3)
Reclassification from inventory	1	–	1
Balance at 31 December 2007	3	3	6

Biological assets comprise mature livestock and game.

Livestock consists of cattle, sheep and goats and game consists of giraffe, ostrich and a variety of antelope.

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

Rand '000	2007	2006
3. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES		
Associates		
Unlisted	50	50
Joint ventures		
Unlisted	2,189	337
Total	2,239	387

Refer to annexure 1 for detail of associated companies and joint ventures and directors' valuations.

	Investments	Loans	Total
Associates			
Balance at beginning of period	–	–	–
Interests acquired	50	–	50
Balance at 31 December 2006	50	–	50
Interests acquired	–	–	–
Balance at 31 December 2007	50	–	50

	2007	2006
Income statement information of associates		
Operating expenses	(114)	–
Operating profit	(114)	–
Net financing income	416	–
Profit before taxation	302	–
Taxation	(88)	–
Profit	214	–
Balance sheet information of associates		
Non-current assets	2,893	2,628
Current assets	–	50
Total assets	2,893	2,678
Shareholders' equity	2,847	2,632
Current liabilities	46	46
Total equity and liabilities	2,893	2,678

The financial information presented represents the group's effective interest.

Rand '000	Investments	Loans	Total
3. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued			
Joint ventures			
Balance at beginning of period	–	–	–
Interests acquired	–	337	337
Balance at 31 December 2006	–	337	337
Interests acquired	–	1,852	1,852
Balance at 31 December 2007	–	2,189	2,189
		2007	2006
Income statement information of joint ventures			
Revenue		50,853	7,107
Operating expenses		(11,297)	(1,110)
Operating profit		39,556	5,997
Net financing costs		1,903	305
Profit before taxation		41,459	6,302
Taxation		(37)	94
Profit		41,422	6,396
Balance sheet information of joint ventures			
Non-current assets		2,828	5,100
Current assets		72,170	31,223
Total assets		74,998	36,323
Shareholders' equity		1,267	5,226
Current liabilities		73,731	31,097
Total equity and liabilities		74,998	36,323
Cash flow information of joint ventures			
Cash flows from operating activities		38,865	8,081
Cash flows from investing activities		2,000	7
Foreign currency translations		73	(2,076)
Net increase in cash and cash equivalents		40,938	6,012

The financial information presented represents the group's effective interest.

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

Rand million	2007	2006
4. INVESTMENTS HELD BY ENVIRONMENTAL TRUST		
Balance at beginning of period	147	–
Acquisition of business	–	147
Contributions	9	–
Growth in environmental trusts	9	–
Balance at end of period	165	147
These investments may only be utilised for the purposes of settling decommissioning and rehabilitation obligations relating to the group's mining operations. The investment returns are reinvested by the trust. Refer to note 10 for the environmental rehabilitation and decommissioning obligations.		
Maturity profile of investments held by environmental trust		
More than 5 years	165	147
Currency analysis of investments held by environmental trust		
Rand	165	147

Fair value of investments held by environmental trust

The fair value of investments held by the environmental trust is determined using a discounted cash flow method using market-related rates at 31 December.

Rand million	Carrying value	Fair value
Investments held by environmental trust – 2007	165	165
Investments held by environmental trust – 2006	147	147

Credit risk

Investments held by the environmental trust are invested in various financial institutions with long-term investment grade credit rating and with the capacity for payment of financial commitments considered strong.

Interest rate risk

Investments held by the environmental trust are invested in financial instruments with variable interest rates between 6.2% and 10.8%.

Rand million	2007	2006
5. LONG-TERM FINANCIAL ASSETS AND PREPAYMENTS		
Long-term receivables	–	3
Prepayments	14	–
	14	3
Maturity profile of long-term receivables		
1 to 2 years	–	3
Currency analysis of long-term receivables		
US Dollar	–	3

5. LONG-TERM FINANCIAL ASSETS AND PREPAYMENTS continued

Fair value of long-term receivables

The fair value of long-term receivables is determined using a discounted cash flow method using market-related rates at 31 December.

Rand million	Carrying value	Fair value
Long-term receivables – 2007	–	–
Long-term receivables – 2006	3	3

Rand million	2007	2006
Maturity profile of long-term prepayments		
1 to 2 years	4	–
2 to 5 years	10	–
	14	–
6. INVENTORIES		
Finished products	322	285
Work-in-progress	763	353
Plant spares and stores	208	108
Raw materials	15	–
Merchandise	2	3
	1,310	749
No inventories are carried at net realisable value or were encumbered during the year.		
7. TRADE AND OTHER RECEIVABLES		
Trade receivables	1,206	905
Other receivables	312	100
Derivative financial instruments (Refer to note 30)	13	–
	1,531	1,005

Credit risk

Trade receivables are exposed to the credit risk of end-user customers within the steel manufacturing industry.

87% or R1,045 million of the total outstanding trade receivables balance of R1,206 million consists of individual end-user customers with an outstanding balance in excess of 5% of the total trade receivables balance as at 31 December 2007.

The group has an established credit policy under which customers are analysed for creditworthiness before the group's payment and delivery terms and conditions are offered.

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

Rand million	2007	2006
7. TRADE AND OTHER RECEIVABLES <small>continued</small>		
Trade receivables credit risk exposure by geographical area		
South Africa	160	148
Europe	285	262
Asia	761	495
	1,206	905
Credit quality of trade receivables		
Not past due	1,200	905
Past due 31 to 60 days	5	–
Past due more than 90 days	1	–
	1,206	905
A provision for impairment of R1 million has been recognised for amounts past due more than 90 days.		
Currency analysis of trade receivables		
Rand	159	136
US Dollar	1,047	769
	1,206	905
Fair value of trade receivables		
The carrying amount of trade receivables approximate their fair value because of the short-period maturity of these instruments.		
Other receivables consist of the following:		
Prepayments	66	17
Outstanding deposits	7	38
Other	239	45
	312	100
8. CASH AND CASH EQUIVALENTS		
Cash	937	1,094
Cash restricted for use	15	–
	952	1,094
Included in cash restricted for use is cash held by SIOC Community Development SPV (Pty) Limited which is considered a special purpose entity and is consolidated for accounting purposes.		
Currency analysis of cash and cash equivalents		
Rand	206	115
US Dollar	739	923
Euro	6	51
Other	1	5
	952	1,094
Fair value of cash and cash equivalents		
The carrying amount of cash and cash equivalents approximate their fair value because of the short-period maturity of these instruments.		
Credit risk		
Cash and cash equivalents are held in various financial institutions with long-term investment grade credit rating and with the capacity for payment of financial commitments considered strong.		

Rand million	2007	2006
9. INTEREST-BEARING BORROWINGS		
Non-current interest-bearing borrowings		
Total non-current interest-bearing borrowings	1,052	2,874
Short-term portion included in current liabilities	(12)	(34)
	1,040	2,840
Current interest-bearing borrowings		
Short-term borrowings	2,478	1,145
Short-term portion of non-current interest-bearing borrowings	12	34
	2,490	1,179
Total interest-bearing borrowings	3,530	4,019
Reconciliation		
Balance at beginning of period	4,019	–
Acquisition of business	–	3,114
Loans raised	1,311	2,840
Loans repaid	(1,800)	(1,956)
Other	–	21
Balance at end of period	3,530	4,019
Maturity profile of interest-bearing borrowings		
Within 1 year	2,490	1,179
1 to 2 years	1,040	–
2 to 3 years	–	2,840
Balance at end of period	3,530	4,019

Rand million	Maturity date	Interest rate at 31 December %	Facility	Outstanding balance 2007	2006
Unsecured loans					
Call loan facility	2008	11.97	1,900	1,060	477
Revolving facility "A" at a floating interest rate of 3 month Libor + 100 basis points, reset quarterly but payable semi-annually. Maturity date 28 November 2009	2009	12.07	2,840	1,040	2,840
Anglo South Africa Capital (Pty) Limited facility at a floating rate of 6 month Libor + 70 basis points	2008	12.23	750	750	–
Revolving facility "B" at a floating interest rate of 3 month Libor + 70 basis points, reset quarterly but payable semi-annually. Maturity date 28 November 2008	2008	11.77	660	668	668
Interest on revolving facility "A" – payable 31 May 2008.				12	34
Balance at end of period			6,150	3,530	4,019

The Libor rate at 31 December 2007 was 11.067% (2006: 8.871%).

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

9. INTEREST-BEARING BORROWINGS continued

Financial covenants

The group is in compliance with its debt covenants.

Currency analysis of interest-bearing borrowings

All interest-bearing borrowings of the group are denominated in Rand.

Fair value of interest-bearing borrowings

The fair value of interest-bearing borrowings with variable interest rates approximate their carrying amount.

Rand million	Carrying value	Fair value
Interest-bearing borrowings – 2007	3,530	3,530
Interest-bearing borrowings – 2006	4,019	4,019

Rand million	Cash-settled share-based payments	Environmental rehabilitation	Decommissioning	Total
10. PROVISIONS				
Acquisition of business	–	115	42	157
Notional interest	–	(3)	–	(3)
Capitalised to property, plant and equipment	–	–	(2)	(2)
Balance at 31 December 2006	–	112	40	152
Notional interest	–	5	2	7
Charge to income statement	–	140	–	140
Capitalised to property, plant and equipment	–	–	8	8
Cash-settled share-based payments (Refer to note 22)	26	–	–	26
Reclassification from equity (Refer to note 22)	6	–	–	6
Balance at 31 December 2007	32	257	50	339
Expected timing of future cash flows				
1 to 2 years	32	–	–	32
3 to 5 years	–	69	4	73
More than 5 years	–	188	46	234
	32	257	50	339
Estimated undiscounted obligation		677	144	822

10. PROVISIONS continued

Cash-settled share-based payments (Refer to note 22)

As a result of restrictions related to the empowerment transaction of Kumba Resources, certain executives and senior managers who participated in the Kumba Resources Management Share Option Scheme were not able to receive certain grants of options which would have been made in the ordinary course of operations. The Human Resources and Remuneration Committee of Kumba Resources consequently awarded "phantom options" to the affected participants. These phantom options were transferred to Kumba on unbundling.

Environmental rehabilitation

Provision is made for environmental rehabilitation costs where either a legal or constructive obligation is recognised as a result of past events. Estimates are based upon costs that are reviewed regularly and adjusted as appropriate for new circumstances.

Decommissioning

The decommissioning provision relates to decommissioning of property, plant and equipment where either a legal or constructive obligation is recognised as a result of past events. Estimates are based upon costs that are regularly reviewed and adjusted.

Funding of environmental rehabilitation and decommissioning (Refer to note 4)

Contributions towards the cost of mine closure are also made to the Kumba Rehabilitation Trust Fund and the balance of the trust amounted to R165 million at 31 December 2007 (2006: R147 million).

Significant accounting estimates

The estimation of the environmental rehabilitation and decommissioning provisions are a key area where management's judgement is required.

A change of 1% in the discount rate used in estimating the environmental rehabilitation and decommissioning provision would result in an increase of R59 million or a decrease of R80 million in the carrying value of the provision.

A change of 1 year in the expected timing of the commencement of environmental rehabilitation and decommissioning would result in an increase of R12 million or a decrease of R12 million in the carrying value of the provision.

Change in accounting estimate

At 31 December 2007 management revised the estimate of the timing and amount of the closure cost of Sishen Mine and Thabazimbi Mine and the discount rate used to determine the present value of the environmental rehabilitation and decommissioning provision was reduced from 10.25% to 9.20%.

Rand million	Environmental rehabilitation	Decommissioning	Total
The effect of these changes are detailed below:	140	8	148
Discount rate	50	11	61
Amount of the closure cost	168	12	180
Expected timing of future cash flows	(78)	(15)	(93)

The change in estimate in the environmental rehabilitation provision resulted in a decrease in attributable profit for 2007 of R99 million (effect on earnings per share is a decrease of 31 cents per share) after taking into account taxation of R41 million and minority interest of R19 million. The change in estimate in the decommissioning provision has been capitalised to the related property, plant and equipment (refer to note 2).

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

Rand million	2007	2006
11. DEFERRED TAX		
Deferred tax assets		
Reconciliation		
Balance at beginning of period	–	–
Current period charge per the income statement	9	–
Balance at end of period	9	–
Expected timing		
Deferred tax assets to be recovered after 12 months	9	–
Deferred tax assets attributable to the following temporary differences		
Estimated tax losses	8	–
Other	1	–
Total deferred tax assets	9	–
Deferred tax liabilities		
Reconciliation		
Balance at beginning of period	485	–
Acquisition of business	–	535
Prior year adjustment	473	–
Current period charge		
Per statement of changes in equity	51	(70)
Per the income statement	442	20
Balance at end of period	1,451	485
Expected timing		
Deferred tax liabilities to be recovered after 12 months	1,354	485
Deferred tax liabilities to be recovered within 12 months	97	–
	1,451	485
Deferred tax liabilities attributable to the following temporary differences		
Property, plant and equipment	1,608	619
Environmental rehabilitation provision	(74)	(102)
Decommissioning provision	(12)	(12)
Leave pay accrual	(22)	(20)
Other	(49)	–
Total deferred tax liabilities	1,451	485

Rand million	2007	2006
12. TRADE AND OTHER PAYABLES		
Trade payables	500	413
Other payables	480	71
Leave pay accrual	77	67
Derivative financial instruments (Refer to note 30)	1	4
	1,058	555
Currency analysis of trade payables		
US Dollar	100	15
Rand	958	540
	1,058	555
Fair value of trade payables		
The carrying amount of trade payables approximate their fair value because of the short-period maturity of these instruments.		
13. TAX PAID		
Amounts unpaid at beginning of period	603	–
Acquisition of business	–	358
Income tax per the income statement	862	249
Translation of foreign operations	–	(4)
	1,465	603
Current tax liability per balance sheet	64	603
	1,401	–
Tax paid per the cash flow statement		
Comprising		
Normal tax		
South Africa	1,357	–
Foreign	44	–
	1,401	–

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

Rand million	12 Months 2007	2 Months 2006
14. REVENUE		
Sale of iron ore	10,412	1,592
Services rendered – shipping	1,085	579
	11,497	2,171
Sale of iron ore		
Domestic – South Africa	1,349	178
Export	9,063	1,414
Europe	2,999	507
China	3,199	462
Rest of Asia	2,865	445
Services rendered – shipping	1,085	579
	11,497	2,171
15. OPERATING EXPENSES		
Operating expenditure by function		
Production costs	3,740	767
Movement in inventories	(402)	70
Finished products	24	(2)
Work-in-progress	(409)	47
Other	(17)	25
Cost of goods sold	3,338	837
Selling and distribution costs	1,300	172
Cost of services rendered – shipping	887	479
Sublease rentals received	(6)	(1)
Operating expenses	5,519	1,487

Rand million	12 Months 2007	2 Months 2006
15. OPERATING EXPENSES continued		
Cost of goods sold comprises		
Staff costs	1,140	173
Salaries and wages	917	127
Equity-settled share-based payments	96	32
Cash-settled share-based payments	26	–
Pension and medical costs	101	14
Raw materials and consumables	716	99
Depreciation of property, plant and equipment	228	43
Mineral properties	25	4
Residential land and buildings	1	–
Buildings and infrastructure	10	2
Machinery, plant and equipment	171	34
Site preparation and mineral development	21	3
Repairs and maintenance	454	75
General expenses	1,230	372
Energy costs	59	8
Own work capitalised	(93)	(7)
Cost recoveries	6	4
Movement in inventories	(402)	70
Cost of goods sold	3,338	837
Selling and distribution costs	1,300	172
Distribution costs	1,213	161
Selling costs	87	11
Cost of services rendered – shipping	887	479
Sublease rentals received	(6)	(1)
Operating expenses	5,519	1,487

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

Rand million	12 Months 2007	2 Months 2006
16. OPERATING PROFIT		
Operating profit includes		
Staff costs	1,140	173
Depreciation of property, plant and equipment	228	43
Reconditional spares usage	1	2
Research and development cost	1	–
Operating lease rental expenses		
Property	9	2
Equipment	34	10
Operating sublease rentals received		
Property	(6)	(1)
Other	–	–
Net profit on disposal or scrapping of property, plant and equipment	(11)	(5)
Share-based payment expense on the disposal of 3% interest in Sishen Iron Ore Company to the SIOC Community Development SPV (Pty) Limited	–	153
Auditors' remuneration		
Audit fees	5	3
Other services	1	–
Directors' emoluments (Refer to remuneration report on page 112)	6	3
Executive directors		
Emoluments received as directors of the company	5	1
Bonuses and cash incentives	–	1
Non-executive directors - emoluments as directors of the company	1	1
17. FINANCE GAINS/(LOSSES)		
Finance gains/(losses) recognised in operating profit		
Gains/(losses) on derivative financial instruments		
– Realised	43	36
– Unrealised	(12)	–
Foreign currency gains/(losses)		
– Realised	14	(54)
– Unrealised	(5)	(31)
	40	(49)
18. FINANCE INCOME/(COSTS)		
Interest expense	(403)	(46)
Notional interest on non-current provisions (Refer to note 10)	(7)	3
Finance costs	(410)	(43)
Interest received	102	7
Net finance costs	(308)	(36)

Rand million	12 Months 2007	2 Months 2006
19. TAXATION		
Income tax expense		
Current tax	628	249
Deferred tax	906	20
STC	234	–
	1,768	269
Charge to the income statement		
South African normal taxation		
Current year	1,122	210
Prior years	(473)	–
Foreign taxation		
Current year	8	–
Prior years	(29)	–
Capital gains taxation	–	39
STC	234	–
	862	249
Deferred tax		
Current year	433	20
Prior years	473	–
	1,768	269
Reconciliation of taxation rates		
	%	%
Taxation as a percentage of profit before taxation	31.2	41.5
Taxation effect of		
Capital profits	(0.1)	(6.0)
Accruals of a capital nature	–	0.1
Disallowable expenditure*	(0.5)	(8.3)
Exempt income	2.0	1.7
Capital expenditure	–	0.2
Translation difference	–	(0.4)
Exchange rate difference on tax rate	0.1	0.1
STC	(4.2)	–
Prior year overprovision	0.5	–
Other	–	0.1
	29.0	29.0
Standard tax rate		

* Included in disallowable expenditure for the two-month period ended 31 December 2006 is the share-based payment expense of R153 million relating to the sale of a 3% interest in Sishen Iron Ore Company to the SIOC Community Development SPV (Pty) Limited.

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

Rand million	12 Months 2007	2 Months 2006
20. PER SHARE INFORMATION		
Attributable earnings per share is calculated by dividing profit attributable to shareholders of Kumba by the weighted average number of ordinary shares in issue during the year.		
For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares as a result of share options granted to employees under the share option schemes. A calculation is performed to determine the number of shares that could have been acquired at fair value, determined as the average annual market share price of the company's shares based on the monetary value of the subscription rights attached to the outstanding share options.		
Profit attributable to equity holders of Kumba	3,100	264
Number of shares		
Weighted average number of ordinary shares in issue	314,618,406	313,594,471
Potential dilutive effect of outstanding share options	5,041,883	5,409,111
Diluted weighted average number of ordinary shares in issue	319,660,289	319,003,582

Reconciliation of headline earnings

The calculation of headline earnings per share is based on the basic earnings per share calculation adjusted for the following items:

Rand million	12 months 2007		2 months 2006	
	Gross adjustment	Net attributable	Gross adjustment	Net attributable
Profit attributable to equity holders of Kumba		3,100		264
Net (profit)/loss on disposal or scrapping of property, plant and equipment	(13)	(7)	(4)	(2)
Realisation of foreign currency translation reserve	(34)	(31)	–	–
Headline earnings	(47)	3,062	(4)	262

Cents	12 Months 2007	2 Months 2006
Attributable earnings per share		
Basic	985	84
Diluted	970	83
Headline earnings per share		
Basic	974	83
Diluted	958	82
Dividend per share		
Interim	350	–
Final	400	80

Number of shares	2007	2006
21. SHARE CAPITAL AND SHARE PREMIUM		
Authorised		
Ordinary shares of R0.01 each	500,000,000	500,000,000
Issued		
Ordinary shares of R0.01 each	317,103,501	313,594,471
Reconciliation of issued shares		
Number of shares at beginning of period	313,594,471	–
Number of ordinary shares issued	3,509,030	313,594,471
Number of shares at end of period	317,103,501	313,594,471
Shares held in reserve reconciliation		
Authorised shares at beginning of period not issued	186,405,529	500,000,000
Shares issued	(1,742,840)	(313,594,471)
Shares held by the Kumba Iron Ore Management Share Trust	(1,766,190)	–
Unissued shares	182,896,499	186,405,529

The unissued shares are under the control of the directors of Kumba until the next annual general meeting.

Rand million	2007	2006
Reconciliation of share capital and premium		
Share capital	3	3
Share premium	96	–
Shares held by Kumba Iron Ore Management Share Trust	(43)	–
	56	3
22. EQUITY-SETTLED SHARE-BASED PAYMENT RESERVE		
Balance at beginning of period	182	–
Equity-settled share-based payment expense	73	182
Employee share incentive schemes	96	29
Minority interest	(17)	–
Reclassification from equity-settled to cash-settled	(6)	–
Share-based payment expense on the disposal of 3% interest in Sishen Iron Ore Company to the SIOC Community Development SPV (Pty) Limited	–	153
Balance at end of period	255	182

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

22. EQUITY-SETTLED SHARE-BASED PAYMENT RESERVE continued

Employee share incentive schemes

Employees of the group participate in the following share incentive schemes:

- Management Share Option Scheme
- Phantom Share Option Scheme
- Long-Term Incentive Plan (LTIP)
- Share Appreciation Rights Scheme (SARS)
- Envision

Management Share Option Scheme

Prior to the unbundling of the then Kumba Resources Limited (Kumba Resources) senior employees and directors of Sishen Iron Ore Company participated in the Kumba Resources Management Share Option Scheme. At the time of unbundling in order to place, as far as possible, all participants in the Kumba Resources Management Share Option Scheme in the position they would have been in if they remained shareholders of the then Kumba Resources Limited, the schemes continued in Kumba and in Exxaro Resources. The Management Share Incentive Scheme was adopted by the group post unbundling subject to certain amendments that were made to the Kumba Resources Management Share Option Scheme. As a result the senior employees and directors that participated in the Kumba Resources Management Share Option Scheme subsequently became participants of the new Kumba Iron Ore Management Share Option Scheme.

Under the Kumba Resources Management Share Option Scheme, share options in Kumba Resources were granted to eligible employees at the market price of the underlying Kumba Resources shares at the date of the grant.

The options granted under the scheme vest over a period of five years commencing on the first anniversary of the offer date except for some share options granted in 2005 that vest in multiples of 33.3% per year over a three-year period commencing on the first anniversary of the offer date.

The vesting periods of these share options are as follows:

- 10% after 1st anniversary of offer date.
- Additional 20% after 2nd anniversary of offer date.
- Additional 20% after 3rd anniversary of offer date.
- Additional 25% after 4th anniversary of offer date.
- Additional 25% after 5th anniversary of offer date.

Share options not exercised lapse by the seventh anniversary of the offer date.

Participants of the Kumba Iron Ore Management Share Option Scheme and the Exxaro Resources Management Share Option schemes exchanged each of their Kumba Resources share options for a share option in Kumba and Exxaro Resources. The strike price of each Kumba Resources option was apportioned between Kumba and Exxaro Resources share options with reference to the volume weighted average price (VWAP) at which Kumba (67.19%) and Exxaro Resources (32.81%) traded for the first 22 days post the implementation of the unbundling transaction.

The Sishen Iron Ore Company employees' share options in the Kumba Iron Ore Management Share Option Scheme vest on the dates that the original share options would have vested and their Exxaro Resources share options vest on the earlier of:

- The date that the original share options would have vested.
- Twenty-four months from the date of unbundling.

The Exxaro Resources share options lapse 42 months after the date of unbundling.

22. EQUITY-SETTLED SHARE-BASED PAYMENT RESERVE continued

	Number of share options	Option price range (Rand)
Movement in the number of share options granted		
Share options transferred from Kumba Resources Management Share Option Scheme	2,264,320	7.89 - 97.74
Share options exercised	(5,770)	7.89 - 97.74
Balance at 31 December 2006	2,258,550	7.89 - 97.74
Net transfers from Exxaro	239,690	8.48 - 86.68
Share options exercised	(451,990)	7.89 - 97.74
Share options lapsed	(59,880)	22.04 - 97.74
Balance at 31 December 2007	1,986,370	7.89 - 97.74

2007

Vesting period of share options granted	
Already vested	682,150
Within 1 year	527,900
1 to 2 years	366,020
2 to 3 years	251,620
3 to 4 years	158,680
	1,986,370

	Weighted average option price (Rand)	Number of share options	Expiry date
Range of exercise prices			
7.89	7.89	6,410	2008
17.37 - 18.85	17.51	235,550	2008
7.85 - 32.99	24.07	215,380	2009
14.15 - 40.18	23.52	122,200	2010
20.69 - 28.89	26.40	390,520	2011
30.91 - 67.26	44.93	437,770	2012
68.53 - 97.74	81.33	578,540	2013
		1,986,370	

Share options held by Exxaro Resources employees in Kumba			
17.37 - 41.66	18.63	517,400	2008
19.42 - 41.66	21.35	337,560	2009
11.11 - 97.74	52.80	3,876,940	2010
		4,731,900	

Rand million	12 Months 2007	2 Months 2006
Share-based payment expense recognised	28	32
Unrecognised share-based payment expense	17	45

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

22. EQUITY-SETTLED SHARE-BASED PAYMENT RESERVE continued

The share options granted under the Management Share Scheme are considered equity-settled. The share-based payment expense is measured using the fair value of the share options issued under the Management Share Option Scheme which was determined using the Black-Scholes option pricing model. The exchange of the Kumba Resources share options for Kumba and Exxaro Resources share options was treated as a modification of the scheme.

The incremental increase in fair value was determined immediately before and after the modification using the Black-Scholes option pricing model. The weighted average incremental fair value granted per share option as a result of the modification amounted to R13.42. This incremental increase is recognised over the revised vesting period.

	Before unbundling	After unbundling	
		Kumba	Exxaro
Fair value assumptions			
Share price (Rand)	142	110	39
Weighted average exercise price (Rand)	58.78	39.49	19.29
Annualised expected volatility (%)	37.90	37.90	37.90
Expected share option life (years)	4.34	4.34	4.34
Expected dividend yield (%)	4.00	4.00	4.00
Risk-free interest rate	8.24	8.24	8.24

The risk-free interest rate for the period within the contractual term of the share options is based on South African Government Bonds.

The historical volatility of the Kumba Resources share price is used in determining the expected volatility.

	Weighted average option price (Rand)	Number of share options	Expiry date
Share options held by Kumba employees in Exxaro Resources			
3.86	3.86	4,710	2008
8.48 - 9.20	8.55	154,150	2008
3.84 - 16.11	11.82	207,090	2009
6.91 - 47.73	25.74	1,497,320	2010
12.90	12.90	4,270	2011
19.62	19.62	2,150	2012
		1,869,690	

Phantom Share Option Scheme

As a result of restrictions related to the empowerment transaction of Kumba Resources, certain executives and senior managers who participated in the Kumba Resources Management Share Option Scheme were not able to receive certain grants of options which would have been made in the ordinary course of operations. The human resources and remuneration committee of Kumba Resources consequently awarded "phantom share options" to the affected participants within the following framework:

- Awards of "phantom share options" were made, with the grant price, vesting dates, and lapse periods set to be the same as those of the options awardable.
- On exercise, the participants are paid (in cash) the difference between the market price (volume weighted average price on the day preceding exercise) and the grant price.
- All other rules and arrangements in respect of the amended Kumba Resources Management Share Option Scheme were replicated for the Kumba Resources Phantom Share Option Scheme.
- The Kumba Resources Phantom Share Option Scheme was replicated for Kumba. The senior employees and directors of Sishen Iron Ore Company that participated in the Kumba Resources Phantom Share Option Scheme prior to the implementation of the empowerment transaction subsequently became participants of the Kumba Phantom Share Option Scheme.
- Exxaro Resources and Kumba entered into an agreement that facilitated the settlement of obligations towards participants of the Phantom Share Option Schemes.

The accounting costs of the Kumba Phantom Share Option Scheme require recognition under IFRS 2 using the treatment for cash-settled share-based payments. This treatment is more volatile than that of the conventional (equity-settled) scheme and the liability will require marking to market at each reporting period.

22. EQUITY-SETTLED SHARE-BASED PAYMENT RESERVE continued

	Offer date	Offer price	Number of share options
Phantom share options held by Kumba employees in Kumba	22/4/2005	40.18	16,800

No new options have yet been granted to management or to senior staff following unbundling.

Long-term Incentive Plan (LTIP)

Senior employees receive annual grants of conditional awards of Kumba shares.

The conditional award will vest after the performance period of three years, and to the extent that specific performance conditions have been satisfied. No retesting of the performance conditions is allowed. The performance conditions for the LTIP awards made during 2007 are subject to the achievement of stretching performance targets relating to total shareholder return (TSR) and to an operating measure, currently return on capital employed (ROCE), over a fixed three-year period.

The performance conditions will determine if, and to what extent, the conditional award will vest. Upon vesting the employee will be entitled to shares in Kumba to settle the value of the vested portion of the conditional award. The conditional awards which do not vest at the end of the three-year period will lapse.

Upon retrenchment, ill-health, disability, retirement or death a proportion of unvested conditional awards shall vest on the date of cessation of employment. The proportion of awards that vest under the LTIP would reflect the number of months serviced and in the opinion of the remuneration committee the extent to which the performance conditions have been met. On resignation or termination of employment all unexercised (vested and unvested) conditional awards will lapse on the date of cessation of employment.

The main intention of the LTIP is to settle the benefits by delivering shares in Kumba to employees.

The aggregate number of shares which may be allocated under the LTIP when added to the total number of unvested conditional awards, unexercised SARS and share options allocated to employees under any other managerial share scheme, may not exceed 10% of the number of issued ordinary shares of Kumba.

	Number of conditional awards	Price range (Rand)
Movement in the number of conditional awards granted		
Conditional awards issued	91,662	–
Conditional awards lapsed	(6,286)	–
Balance at 31 December 2007	85,376	–

	Weighted average price (Rand)	Number of conditional awards	Expiry date
Vesting period of conditional awards granted			
3 years	–	85,376	2010

Rand million	12 Months 2007
Share-based payment expense recognised	2
Unrecognised share-based payment expense	5

The conditional awards granted under the LTIP are considered equity-settled. The share-based payment expense is measured using the fair value of the conditional award issued under the LTIP which was determined using the Montecarlo option pricing model.

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

22. EQUITY-SETTLED SHARE-BASED PAYMENT RESERVE continued

12 Months
2007

Fair value assumptions

Share price on date of grant (Rand)	126.50
Weighted average exercise price (Rand)	–
Annualised expected volatility (%)	37.2
Expected share option life (years)	3.0
Expected dividend yield (%)	2.65
Risk-free interest rate (%)	7.70

The risk-free interest rate for the period within the contractual term of the share options is based on South African Government Bonds.

The historical volatility of the Kumba and Kumba Resources share price is used in determining the expected volatility.

Share Appreciation Rights Scheme (SARS)

Senior employees receive annual grants of share appreciation rights, which are rights to receive Kumba shares equal to the value of the difference between the market value of a Kumba share on the day immediately preceding the date of exercise (exercise price) of the right and market value of the Kumba share on the day immediately preceding the date of grant of the right (grant price).

The vesting of the rights is subject to specific performance conditions. The duration and specific nature of the conditions as determined by the remuneration committee of Kumba are stated in the letter of grant for each annual grant. The measurement of the performance conditions will be tested after three years. Retesting of the performance condition is permitted on the first and second anniversary of the end of the performance period. After vesting, the rights will become exercisable.

Kumba will settle the value of the difference between the exercise price and the grant price, by delivering shares to the employee. Rights not exercised within seven years will lapse.

Upon retrenchment, ill-health, disability, retirement or death a proportion of unvested rights shall vest on the date of cessation of employment. The proportion of awards that vest under the SARS would reflect the number of months serviced and in the opinion of the remuneration committee the extent to which the performance conditions have been met. On resignation or termination of employment all unexercised (vested and unvested) rights will lapse on the date of cessation of employment.

The main intention of the SARS is to settle the benefits by delivering shares in Kumba to employees.

The aggregate number of shares which may be allocated under the SARS when added to the total number of unexercised SARS, conditional awards under the LTIP and share options allocated to employees under any other managerial share scheme, may not exceed 10% of the number of issued ordinary shares of Kumba.

	Number of rights	Exercise price range (Rand)	
Movement in the number of rights granted			
Rights issued	300,860	124.27 - 207.56	
Rights lapsed	(12,410)	124.27 - 151.57	
Balance at 31 December 2007	288,450	124.27 - 207.56	
	Exercise price range (Rand)	Number of rights	Expiry date
Vesting period of rights granted			
3 to 5 years	124.27 - 267.61	288,450	2014

22. EQUITY-SETTLED SHARE-BASED PAYMENT RESERVE continued

Rand million	12 Months 2007
Share-based payment expense recognised	3
Unrecognised share-based payment expense	9
The rights granted under the SARS are considered equity-settled. The share-based payment expense is measured using the fair value of the share options issued under the SARS which was determined using the Black-Scholes option pricing model.	
Fair value assumptions	
Share price on date of grant (Rand)	126.50
Weighted average exercise price (Rand)	124.27
Annualised expected volatility (%)	37.2
Expected share option life (years)	5.5
Expected dividend yield (%)	2.66
Risk-free interest rate (%)	7.66

The risk-free interest rate for the period within the contractual term of the share options is based on South African Government Bonds. The historical volatility of the Kumba and Kumba Resources share price is used in determining the expected volatility.

Envision

The implementation objective of Envision was to provide an incentive and retention initiative to employees who do not participate in the other share schemes of the group that are permanently employed by Sishen Iron Ore Company in South Africa.

The acquisition of the 3% interest in Sishen Iron Ore Company by Envision was funded by Sishen Iron Ore Company in terms of a contribution agreement. The scheme will have a first term of five years and may have a second term on the same basis as the first term, starting on the expiry of the first term. Envision holds Sishen Iron Ore Company shares for the benefit of employee beneficiaries.

Employee beneficiaries of Envision are entitled to receive 50% of any dividend received by Envision in respect of its underlying shareholding in Sishen Iron Ore Company and a distribution at the end of the first term (five years) of the Sishen Iron Ore Company shares remaining in Envision after the repurchase of certain Sishen Iron Ore Company shares in terms of the subscription agreement. Each employee will be entitled to receive Kumba shares which were swapped for the Sishen Iron Ore Company shares using the specific price earnings ratio of Kumba and the most recent earnings of Sishen Iron Ore Company at the end of the first term.

	Number of share options	Weighted average option price (Rand)
Movement in the number of share options granted		
Share options issued	15,078,277	22.84
Share options lapsed	(591,836)	22.84
Balance at 31 December 2007	14,486,441	22.84
	Number of share options	Expiry date
Vesting period of share options granted		
4 years	14,486,441	2011

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

22. EQUITY-SETTLED SHARE-BASED PAYMENT RESERVE continued

12 Months
2007

Rand million	
Share-based payment expense recognised	64
Unrecognised share-based payment expense	215
Envision is considered equity-settled. The share-based payment expense is measured using the fair value of the awards issued under the scheme which was determined using the Montecarlo option pricing model.	
Fair value assumptions	
Share price on date of grant (Rand)	39.48
Weighted average exercise price (Rand)	22.84
Annualised expected volatility (%)	37.00
Expected share option life (years)	5.0
Expected dividend yield (%)	3.25
Risk-free interest rate (%)	8.00

The risk-free interest rate for the period within the contractual term of the share options is based on South African Government Bonds. The historical volatility of the Kumba and Kumba Resources share price is used in determining the expected volatility.

Rand million	2007	2006
23. MINORITY INTEREST		
Balance at beginning of period	216	–
Acquisition of business	–	93
Profit for the period	802	115
Exxaro Resources	784	115
SIOC Community Development SPV	7	–
Envision	11	–
Dividends paid	(383)	–
Exxaro Resources	(373)	–
SIOC Community Development SPV	(7)	–
Envision	(12)	–
Recoupment of Envision dividend	9	–
Interest in movement in equity reserves	6	8
Equity-settled share-based payment reserve	17	3
Foreign currency translation reserve	(2)	6
Cash flow hedge accounting reserve	1	(1)
Taxation effects	(10)	–
Balance at end of period	641	216

The recoupment of the Envision dividend of R9 million arises from Sishen Iron Ore Company's participation as income beneficiary in the SIOC Employee Share Participation Scheme (Envision).

Rand million	12 Months 2007	2 Months 2006
24. CASH GENERATED BY OPERATIONS		
Operating profit	5,978	684
Adjusted for:		
Depreciation of property, plant and equipment	228	43
Movement in provisions	140	–
Foreign currency revaluations and fair value adjustments	(7)	26
Reconditionable spares used	1	2
Profit on disposal of property, plant and equipment	(11)	(6)
Movement in non-current financial assets and prepayments	(16)	2
Equity-settled share-based payment expenses	96	32
Cash-settled share-based payment expenses	26	–
Share-based payment expense on the disposal of 3% interest in Sishen Iron Ore Company to the SIOC Community Development SPV (Pty) Limited	–	153
Cash flows from operations	6,435	936
Working capital movements		
(Increase)/decrease in inventories	(562)	27
Increase in trade and other receivables	(534)	(159)
Increase/(decrease) in trade and other payables	466	(415)
	5,805	389
25. NET FINANCE COSTS PAID		
Net financing costs as per income statement	(308)	(36)
Less: interest adjustment on non-current provisions	7	(3)
	(301)	(39)
26. DIVIDENDS PAID		
Dividends paid		
Dividends per the statement of changes in equity	(1,362)	–
Recoupment of Envision dividend (Refer to note 23)	9	–
	(1,353)	–
Dividends paid to minority shareholders		
Dividends per the statement of changes in equity	(383)	–
Recoupment of Envision dividend (Refer to note 23)	(9)	–
	(392)	–

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

Rand million	12 Months 2007	2 Months 2006
27. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT		
Replacement of property, plant and equipment	(349)	(85)
Reconditioned spares	(17)	(2)
Investment to maintain operations	(366)	(87)
Investment to expand operations	(1,753)	(424)
	(2,119)	(511)

28. ACQUISITION OF BUSINESS

2006

As part of the unbundling of Kumba Resources, the Kumba group was formed in November 2006. The unbundling of Kumba was effected by way of a distribution of Kumba distribution shares (in specie) in terms of section 90 of the Companies Act and in accordance with section 46 of the Income Tax Act in the ratio of one Kumba distribution share for every one Kumba Resources share held at the close of business on the record date.

The result of the unbundling was that Kumba acquired a 74% shareholding in Sishen Iron Ore Company. The remaining shares in Sishen Iron Ore Company are held by Exxaro Resources (20%), SIOC Community Development SPV (Pty) Limited (3%) and Envision (3%). As part of the various agreements put in place to arrange the sale of the shares to the SIOC Community Development SPV (Pty) Limited and Envision, Kumba accepted terms which resulted in the majority of the risk not being transferred away from Kumba. Based on accounting rules governing the accounting for special purpose entities, it is required that Kumba consolidate these entities and therefore the total liabilities and the total assets are accounted for on the consolidated balance sheet, as these entities are deemed to form part of the Kumba group.

For accounting purposes, the unbundling transaction was treated as a transaction between entities under common control, and therefore all assets and liabilities were included at their respective book values at the unbundling date.

	2 Months 2006
Cash paid on acquisition of business	(3)
Pre-acquisition reserves acquired	(371)
Purchase consideration	(374)
Fair value of net assets acquired	
Property, plant and equipment	3,399
Biological assets	4
Investments in associates and joint ventures	1
Investments held by environmental trust	147
Long-term financial assets and prepayments	3
Inventories	785
Trade and other receivables	912
Cash and cash equivalents	403
Non-current provisions	(157)
Deferred taxation	(535)
Short-term borrowings	(3,114)
Trade and other payables	(1,023)
Current tax liabilities	(358)
Minority interest	(93)
Total purchase consideration	374
Cash paid on acquisition of business	(3)
Cash and cash equivalents held by business on acquisition	403
Net cash acquired on acquisition of business	400

No fair value adjustments were made to the carrying value of net assets acquired and no plant closure or other restructuring provisions were created on acquisition.

Rand million	12 Months 2007	2 Months 2006
29. TRANSLATION EFFECTS OF CASH FLOWS OF FOREIGN OPERATIONS		
Balance at beginning of period	(24)	–
Reclassification of at acquisition reserve	(29)	–
At acquisition of subsidiary	–	(29)
Closing balance	2	24
Movement for the period	(51)	(5)
Unrealised gains/(losses) in relation to foreign transactions	1	(5)
Transfer (from)/to foreign currency translation reserve	(55)	224
Less: arising on translation of foreign entities:	148	243
Inventories	1	(6)
Accounts receivable	23	(68)
Accounts payable	16	55
Taxation paid	(1)	3
Investments acquired	–	(1)
Long-term loans	66	260
Share capital	43	–
Minority interest	(12)	(6)
	31	(35)

30. FINANCIAL INSTRUMENTS

The group is exposed to credit risk, liquidity risk and market risk (currency risk and interest rate risk) from the use of financial instruments. Overall responsibility for establishment and oversight of the risk management framework rests with the board of directors. The audit and risk committee, a committee of the board, is responsible for the development and monitoring of the group's risk management process.

The group maintains an integrated, enterprise-wide, risk management programme (IRM). The group applies a logical, systematic and repetitive methodology to identify, analyse, assess, treat and monitor all risks, whether they are insurable or not. The risk management process is continuous, with well-defined steps, which support better decision-making by contributing a greater insight into risks and their impacts. Risks from all sources are identified and once they pass the materiality threshold, a formal process begins in which causal factors and consequences are identified and the correlation with other risks and the current risk mitigating strategy is reviewed. One of the challenges is to ensure that mitigating strategies are geared to deliver reliable and timely risk information to support better decision-making.

The risk assessment and reporting criteria are designed to provide the executive committee and the board, via the audit and risk committee, with a consistent, enterprise-wide perspective of the key risks. The reports which are submitted monthly to the executive committee and quarterly to the audit and risk committee include an assessment of the likelihood and impact of risks materialising, as well as risk mitigation initiatives and their effectiveness.

In conducting its annual review of the effectiveness of risk management, the board will consider the key findings from the ongoing monitoring and reporting processes, management assertions and independent assurance reports. The board will also take account of material changes and trends in the risk profile and consider whether the control system, including reporting, adequately supports the board in achieving its risk management objectives.

Sishen Iron Ore Company provides a treasury function to the group, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the group's operations.

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

30. FINANCIAL INSTRUMENTS continued

Credit risk

Credit risk is the risk of financial loss to the group if a counterparty to a financial instrument fails to meet its contractual obligations. The group limits its counterparty exposure arising from money market and derivative instruments by dealing only with well-established financial institutions of high credit standing. The group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the board annually.

Rand million	2007	2006
The carrying amount of financial assets represents the maximum exposure to credit risk		
Investments held by the environmental trust (Refer to note 4)	165	147
Long-term receivables (Refer to note 5)	–	3
Trade receivables (Refer to note 7)	1,206	905
Derivative financial instruments	13	–
Cash and cash equivalents (Refer to note 8)	952	1,094
	2,336	2,149

An analysis of the credit risk of these financial assets is provided under the individual notes specified above. The group has established policies and guidelines that are followed for specific exposure limits when transacting in derivative financial instruments.

Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its financial obligations as they become due. The group manages liquidity risk by ensuring sufficient liquidity through cash resources and credit facilities to meet its liabilities when due. The group's credit facilities are provided under note 9.

The maturity profile of the group's financial instruments is analysed below:

Rand million	Within 1 year	1 to 2 years	More than 3 years	Total
2007				
Financial assets				
Investments held by the environmental trust (Refer to note 4)	–	–	165	165
Trade receivables (Refer to note 7)	1,206	–	–	1,206
Derivative financial instruments	13	–	–	13
Cash and cash equivalents (Refer to note 8)	952	–	–	952
Financial liabilities				
Interest-bearing borrowings (Refer to note 9)	(2,490)	(1,040)	–	(3,530)
Trade payables (Refer to note 12)	(500)	–	–	(500)
Derivative financial instruments	(1)	–	–	(1)
	(820)	(1,040)	165	(1,695)
2006				
Financial assets				
Investments held by the environmental trust (Refer to note 4)	–	–	147	147
Long-term receivables (Refer to note 5)	–	3	–	3
Trade receivables (Refer to note 7)	905	–	–	905
Cash and cash equivalents (Refer to note 8)	1,094	–	–	1,094
Financial liabilities				
Interest-bearing borrowings (Refer to note 9)	(1,179)	–	(2,840)	(4,019)
Trade payables (Refer to note 12)	(413)	–	–	(413)
Derivative financial instruments	(4)	–	–	(4)
	403	3	(2,693)	(2,287)

30. FINANCIAL INSTRUMENTS continued

Currency risk

The group undertakes transactions denominated in currencies other than the respective functional currencies of the entities within the group. Through these transactions the group is exposed to currency risk.

The group's financial instrument exposure to currency risk is analysed under the individual note for each financial instrument at balance sheet date.

The group uses derivative financial instruments to reduce the uncertainty over future cash flows arising from movements in currencies in which it transacts. Currency risk is managed within board-approved policies and guidelines, which restrict the use of derivative financial instruments to the hedging of specific underlying currencies. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts (FECs).

The group maintains a fully covered exchange rate position in respect of imported capital equipment resulting in these exposures being fully converted to Rand. Trade-related import exposures are managed through the use of natural hedges arising from export revenue as well as through short-term FECs.

The group has the following outstanding exposure at 31 December in respect of derivative financial instruments:

	Foreign amount (m)	Market related value (Rand m)	Contract value (Rand m)	Recognised fair value in equity (Rand m)
Derivative instruments – cash flow hedges				
2007				
Related to future commitments for the import of capital equipment				
US Dollar – FECs	1	6	6	–
Euro – FECs	2	18	17	(1)
Japanese Yen – FECs	262	16	16	–
	265	40	39	(1)
2006				
Related to future commitments for the import of capital equipment				
US Dollar – FECs	10	71	71	–
Euro – FECs	4	40	42	2
Japanese Yen – FECs	262	15	17	2
Great British Pound – FECs	–	2	2	–
	276	128	132	4
	Foreign amount (m)	Market related value (Rand m)	Contract value (Rand m)	Recognised fair value gains/(losses) (Rand m)
Derivative instruments – held for trading				
2007				
Related to the repatriation of foreign cash receipts				
US Dollar – FECs	80	550	563	13
Related to future commitments for the import of capital equipment				
US Dollar – FECs	–	2	2	–
	80	552	565	13

There were no held for trading derivative instruments outstanding as at 31 December 2006.

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

30. FINANCIAL INSTRUMENTS continued

Fair value of derivative instruments

The fair value of derivative instruments included in hedging assets and liabilities is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analyses using the applicable yield curve for the duration of the instrument.

Sensitivity analysis

The average US Dollar/Rand exchange rate for 2007 of US\$1: R7.03 (US\$1: R7.13 for two months ended 31 December 2006) has been used to translate income and cash flow statements, whilst the balance sheet has been translated at the closing rate at the last day of the reporting year using an exchange rate of US\$1: R6.81 (US\$1: R6.98 as at 31 December 2006).

A movement in exchange rates of 5% with all other variables held constant against the US Dollar, the principal currency to which the group is exposed at 31 December, equity and profit and loss would have increased/(decreased) by the amounts shown below:

Rand million	Impact on profit and loss		Impact on equity	
	Increase	Decrease	Increase	Decrease
2007				
US Dollar	57	(57)	40	(40)
2006				
US Dollar	84	(84)	60	(60)

Interest rate risk

The group is exposed to interest rate risk as it borrows and deposits funds at floating interest rates. The risk is managed by taking into account future interest rate expectations. For further details on long-term debt refer to note 9.

Sensitivity analysis

A movement in interest rates of 50 basis points with all other variables held constant the equity and profit and loss would have increased/(decreased) by the amounts shown below:

	Impact on profit and loss		Impact on equity	
	Increase	Decrease	Increase	Decrease
2007				
Floating interest instruments	14	(14)	10	(10)
2006				
Floating interest instruments	12	(12)	9	(9)

Capital management

The group strives to maintain strong credit ratings. In managing its capital, the group focuses on a sound net debt position, return on shareholders' equity (or return on capital employed) and the level of dividends to shareholders. Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

The group's net debt position at balance sheet dates was as follows:

	2007	2006
Long-term interest-bearing borrowings	1,040	2,840
Short-term interest-bearing borrowings	2,490	1,179
Total	3,530	4,019
Cash and cash equivalents	(952)	(1,094)
Net debt	2,578	2,925
Total equity	3,295	1,055

30. FINANCIAL INSTRUMENTS *continued*

Through strong cash flow generation, the net debt position of Kumba has reduced from R2.9 billion in 2006 to R2.6 billion in 2007.

It is the intention of management to fund Kumba's capital expansion projects through debt financing. At 31 December 2007 Kumba was revolving certain of its debt facilities and, for this reason, a significant portion of the interest-bearing borrowings are considered short term. However, as debt is used to finance Kumba's expansion, the debt profile will return to a longer-term profile.

The maximum debt in terms of current covenants is R4.5 billion. Kumba was not in breach of any of its covenants during the current year, with interest cover at a healthy 19 times earnings.

There has been no change in the group's objectives, policies and processes for managing its capital from the prior year.

31. EMPLOYEE BENEFITS

Retirement fund

Independent funds provide pension and other benefits for all permanent employees and their dependants. At the end of 2007 the following funds were in existence:

- Kumba Iron Ore Selector Pension Fund and Kumba Iron Ore Selector Provident Fund, both operating as defined contribution funds.
- Iscor Employees' Provident Fund, operating as a defined contribution fund.
- Iscor Retirement Fund, operating as a defined benefit fund. This fund is closed now to new entrants.
- Mittal Steel South Africa Pensioenfonds (formerly the Yskor Pensioenfonds), operating as a defined benefit fund. This fund is closed now to new entrants.

In compliance with the Pension Funds Act, after the unbundling of Kumba Resources Limited, the members' funds of SIOC employees were transferred to the Kumba Iron Ore Selector Pension and Provident funds, once all regulatory approvals were obtained.

Members pay contributions of 7% and an employers' contribution of 10% is expensed as incurred.

All funds are governed by the South African Pension Funds Act of 1956.

Defined contribution funds

Membership of each fund and employer contributions to each fund were as follows:

Rand million	2007		2006
	Working members (number)	Employer contributions	Employer contributions
Kumba Iron Ore Selector Pension and Provident Funds	2,046	32	–
Kumba Selector Pension and Provident Funds	–	–	4
Iscor Employees' Provident Fund	3,735	25	4
Other Funds	6	–	–
Total	5,787	57	8

Due to the nature of these funds, the accrued liabilities definition equates to the total assets under control of these funds.

Defined benefit funds

Kumba previously disclosed its interest as a participating employer in the closed defined benefit funds namely the Mittal Steel South Africa Pensioenfonds and Iscor Retirement Fund. Such interest was disclosed while final confirmation was awaited on either the approval by the Registrar of Pension Funds of the scheme for the apportionment of an existing surplus, or the permission to not submit a surplus apportionment scheme in terms of section 15B of the Act. Final confirmations have now been received and Kumba does not have any continuing obligations in respect of these funds.

Medical fund

The group contributes to defined benefit medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R44 million (2006 : R6 million). The group has no obligation to fund medical aid contributions for current or retired employees.

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

Rand million	2007	2006
32. GUARANTEES AND LEGAL PROCEEDINGS		
Guarantees		
Environmental trust closure liability	13	13
Bank guarantee for low-cost housing development	–	10
	13	23

Legal proceedings

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. No liability has been recognised for this litigation.

During 2007 ArcelorMittal paid an amount of 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 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. 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.

33. COMMITMENTS

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

Rand million	2007	2006
Property		
Within 1 year	6	5
2 to 5 years	17	19
More than 5 years	–	4
	23	28
Plant and equipment		
Within 1 year	–	21
1 to 2 years	21	7
	21	28
Computer equipment		
Within 1 year	2	–
2 to 5 years	10	–
	12	–
Total operating lease commitments	56	56
Commitments - shipping services		
The future commitments under contracts for afreightment are as follows:		
Within 1 year	448	–
2 to 5 years	250	–
	698	–

Kumba Iron Ore Limited Group

Notes to the Annual Financial Statements continued

for the period ended 31 December

34. RELATED PARTY TRANSACTIONS

During the year the company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase of goods and services with the ultimate holding company, Anglo American plc, its subsidiaries, associates and joint ventures. Certain borrowings are also placed with the holding company (refer to note 9). The effect of these transactions is included in the results of the group. These transactions occurred under terms that are no less favourable than those arranged with third parties.

Holding company

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

Subsidiaries

Details of investments in and loans to/(from) subsidiaries are disclosed in Annexure 2.

Associates and joint ventures

Details of investments in associates and joint ventures are disclosed in note 3 of the group financial statements and Annexure 1.

Special purpose entities

The group has an interest in the following special purpose entities which are consolidated:

Entity	Nature of business
Sishen Iron Ore Community Development SPV (Pty) Limited	Investment vehicle
Sishen Iron Ore Employee Share Purchase Scheme (Envision)	Investment vehicle
Kumba Iron Ore Rehabilitation Trust	Trust fund for mine closure

Directors and senior management

Details relating to directors' and the group's executive committee remuneration and shareholdings (including share options) are disclosed in the Kumba Iron Ore Limited remuneration report on pages 112 to 117.

Shareholders

The major shareholders of the company are detailed under "Share ownership" on page 181.

Rand million	12 Months 2007	2 Months 2006
Material related party transactions		
Purchase of goods and services		
Holding company	57	1
Associates and joint ventures	50	7
	107	8
Sale of goods and services		
Holding company	7	1
Associates and joint ventures	5	–
	12	1

34. RELATED PARTY TRANSACTIONS continued

Rand million	12 Months 2007	2 Months 2006
Amounts owing to related parties (after eliminating intercompany balances)		
Holding company	753	1
Trade payables	2	–
Derivative financial instruments	1	1
Borrowings	750	–
	753	1
Amounts owing by related parties (after eliminating intercompany balances)		
Holding company	14	1
Trade receivables	1	–
Derivative financial instruments	13	1
Associates and joint ventures - trade payables	50	12
Loans to associates and joint ventures	2	–
	66	13

35. SEGMENT REPORTING

The group's primary reporting format is business segments. As there is only one business segment, being mining, extraction and production of iron ore, the relevant disclosures have been given in the financial statements. The secondary reporting format is geographical segments. Segment revenue is disclosed by the geographical location of the group's customers. The segment assets, liabilities and capital expenditure has been disclosed by geographical location of the specific assets and related liabilities. The business is managed and organised according to the nature of the products and service provided, with the segment representing a strategic business unit that offers a specific product and services a specific market.

The group's geographical segments are determined by location of the group's assets and operations.

Rand million	South Africa	Europe	Asia	Other	Total
Secondary reporting format – Geographical segments					
	12 Months 2007				
Revenue					
Sales to external customers	1,349	2,999	7,149	–	11,497
Other segment information					
Segment assets	8,055	590	1,045	47	9,737
Segment liabilities	6,312	8	121	1	6,442
Capital expenditure	2,119	–	–	–	2,119
	2 Months 2006				
Revenue					
Sales to external customers	178	507	1,486	–	2,171
Other segment information					
Segment assets	5,679	324	814	52	6,869
Segment liabilities	5,745	55	14	–	5,814
Capital expenditure	511	–	–	–	511

Total segment revenue, which excludes value-added tax and sales between group companies, represents the gross value of goods and services invoiced. Export revenue is recorded according to the relevant sales terms, when the risks and rewards of ownership are transferred. Segment revenue includes sales made between segments. These sales are made on a commercial basis.

Segment assets and liabilities include operating assets, investments in associates and joint ventures and liabilities which can be directly allocated on a reasonable basis.