

# Chairman's statement

Lazarus Zim



Kumba's first full year of operation was extremely successful, with record production of 32.4 million tonnes and revenue up 33% to R11.5 billion.

The company faced several challenges during the year, chief among these the delay of two sizeable expansion projects for reasons ranging from labour shortages in the construction and engineering fields to the finalisation of commercial arrangements for expanding the export channel rail capacity.

The company began trading on the JSE Limited (JSE) in November 2006 following the successful unbundling of Kumba Resources into two listed vehicles, Kumba Iron Ore Limited and Exxaro Resources Limited, to facilitate South Africa's largest mining empowerment transaction. The value of Kumba as a long-term pure-play iron ore investment was amply demonstrated in the strong growth of the share price.

## Business environment

At 5%, South African economic growth in the review period was stronger than world gross domestic product (GDP) growth, which slowed slightly to 3.8%. This is still healthy and was driven in part by the strong performance of emerging market economies, particularly China.

In South Africa, the year was characterised by consumer price inflation rising beyond the South African Reserve Bank's 3-6% target range, leading to credit-tightening measures. In addition, the weakening of the Rand against the US Dollar boosted the export earnings of the mining industry, supported by strong commodity prices.

Coupled with acute skills shortages, infrastructural constraints – from electricity supply to transport facilities – run the very real risk of curtailing the economic growth potential of this country. This will be exacerbated by any negative developments internationally, such as a recession in the United States.

The iron ore market has had five years of annual benchmark price increases, with record increases in 2004/5 (71.5%) and 2005/6 (19.5%). The iron ore market is expected to remain buoyant in 2008, with spot prices into China still much higher than contract prices.

Market fundamentals support a significant price increase in excess of 65% for the 2008/9 iron ore year.

Again, this has been driven primarily by demand from China for iron ore which has more than quadrupled from 92Mt in 2001 to 387Mt in 2007. This country now consumes over 45% of global seaborne iron ore and major capacity expansions have been announced to meet growing demand in the Chinese economy.

## Regulatory environment

We welcome the imminent finalisation of the minerals and petroleum royalty bill. The third draft of the bill included substantial changes. It confirmed gross sales as the tax base, but accounted for the process of beneficiation in a different manner. While the second draft attempted to account for beneficiation activities by way of dual rates (differential rates for refined and unrefined minerals), this draft moves from a dual-rate system to an allowance for deductions of beneficiation-related expenses. The proposed revised tax base is based on gross revenue less allowable beneficiation-related expenses and transport expenses. The new royalty rate structure is also based on a formula that considers the profitability of a company. We have considered these proposals in our submission to the authorities.

Amendments are also being drafted to the principal governing legislation for our industry, the Mineral and Petroleum Resources Development Act. This 2004 act requires mining companies to reapply for their licences and comply with the targets of the mining charter and its attendant scorecard.

Kumba has made good progress in its endeavour to convert its mining licences. To date we have submitted two applications to convert old-order rights; one to convert prospecting rights; and one each for new mining rights and new prospecting rights. Subsequent to the year end, the Department of Minerals and Energy announced it had reached agreement with the Anglo American plc group on all remaining mining rights conversions, subject to outstanding documentation being completed. In effect, Kumba's conversions to new-order mining rights are expected to be granted shortly.

The 2007 financial year was an important period for Kumba in which we delivered on most of our pre-listing forecasts amid buoyant commodity markets. Importantly, our longer-term strategy for growth is unfolding as we move towards our target of doubling export production capacity by 2013.

### Strategic direction

Kumba's strategy has been clearly defined and endorsed by the board to realise the group's longer-term sustainability and full potential.

Accordingly, to reach the target of doubling our export production capacity by 2013 the focus for Kumba in the next five years will be on developing the iron ore export channel further in partnership with Transnet and other stakeholders, securing regulatory approval for the South African expansion projects, such as Sishen South, and a first-stage development outside South Africa, such as the exploration under way in Guinea.

### Our people

Kumba has a workforce numbering over 4,600. Acknowledging the importance of retaining these skills, several innovative initiatives have been implemented – such as Envision, an employee share participation scheme to incentivise employees, but also to serve as a retention mechanism, and ensure market-related remuneration.

During 2007, R11 million was paid to employees of Sishen Iron Ore Company through the dividend received by Envision and R7 million to the SIOC Community Development Trust through its interest in the SIOC Community Development SPV. The remaining dividend received by Envision and the SIOC Community Development SPV is used to reduce the funding put in place to acquire the underlying interest in Sishen Iron Ore Company. In addition to the dividends paid to employees, there has been significant growth in the value of the Sishen Iron Ore Company shares held by Envision since the inception of the scheme.

The company enjoys good relations with bargaining-unit employees and their representative labour unions, and wage agreements for 2008 were settled amicably. We have also had an excellent response to wellness and awareness campaigns focused on combating the scourge of HIV and Aids in South Africa, and 3,624 permanent employees were tested during the year. A new wellness clinic (p81) in the town of Kathu, opened in December 2007, will provide an important service to the community and accelerate the testing drive.

### Corporate governance

From a very early stage in the unbundling process, we concentrated on assembling a competent and representative board of directors who would establish the governance systems under which Kumba now operates.

These systems were designed to ensure that the group complies with the provisions of the King II report on corporate governance, the provisions of the Corporate Laws Amendment Act and the international governance standards of our major shareholder.

In its first year, the company has proved its ability to meet legislative compliance and governance standards. As a board, we are confident that Kumba will continue to be a responsible custodian of its natural resources and a significant contributor to the nation's prosperity and growth.

### Thanks

Kumba is led by a competent and experienced management team, headed by Ras Myburgh, and our people have proven their mettle in a challenging but rewarding first year. Ambitious targets have been set for 2008 and beyond, and we are confident of both the ability and willingness of this new company to achieve these goals.



**Lazarus Zim**  
Chairman

13 February 2008