

Commentary

Highlights

Despite the volatility in the global economy towards the end of 2008, Kumba Iron Ore Limited ("Kumba") has delivered strong financial results for the year ended 31 December 2008. During April 2008 Kumba's old order mining rights were converted and a new mining right granted for the Sishen South project. A significant step has been taken towards the next phase of growth for Kumba with the approval of the Sishen South project during the third quarter of 2008.

Attributable profit for the year of R7,2 billion and headline earnings of R7,3 billion more than doubled from R3,2 billion and R3,1 billion achieved in 2007 respectively.

Revenue increased by 86% as a result of stronger iron ore prices, a weaker Rand, increased revenue from shipping services and higher export sales volumes. Operating expenses remained under pressure as inflation in South Africa soared and fuel and other key commodity costs saw unprecedented increases during the year. Despite the increase in operating costs, Kumba's operating margin improved to 63% in 2008 (69% from mining activities) from 52% (56% from mining activities) in 2007. Cash generated from operations for the year increased to R14,5 billion compared to the R5,8 billion generated during 2007.

Attributable earnings for the year was R22,80 per share, while headline earnings increased to R23,02 per share, on which a final cash dividend of R13,00 per share has been declared, bringing the total dividend for the year to R21,00 per share (2007 – R7,50 per share).

Safety performance

The safety achievements of Kumba during 2008 are a clear reflection of the commitment to zero harm. When measured by lost-time injuries ("LTI's") Kumba has shown significant improvement with 14 LTI's in 2008 compared to 29 LTI's in 2007. The lost-time injury frequency rate ("LTIFR") of the group reduced to 0,12 from 0,22 in 2007. Sishen Mine achieved an LTIFR of 0,12 which is the best ever performance in the history of this mine. At 31 December 2008 Thabazimbi Mine has worked in excess of six years without a fatality and 15 months without an LTI, with the last LTI reported in September 2007.

Notwithstanding this improvement, it is with regret that the group announced in its interim results that it suffered one fatality during 2008 when Mr Kagiso Peace Leboa, a 42 year old truck operator, was fatally injured at Sishen Mine in April.

Commitment to zero harm

LTIFR of 0,12

Operating profit up

126% to
R13,5 billion

Headline earnings up

131% to
R7,3 billion

Final cash dividend

R13,00 per
share

Sishen Mine's production up

15% to 34Mt

Operating results

During 2008 the steel market experienced both sharp rises and steep falls. In the first half of the year, the steel market rose continuously and broke historical records. Chinese imports of iron ore rose to 444Mt for the year pushing iron ore spot prices to an all-time high of close to US\$200 per tonne in early 2008. However, steel prices plummeted from the third quarter on the back of a sudden fall off in demand.

Iron ore export sales for the first three months of 2008 were based on a 9,5% increase in iron ore prices for the 2007/2008 iron ore year. An average US Dollar increase in the iron ore price of 93% for the 2008/2009 iron ore year (effective from April 2008) was reached by Kumba during the third quarter of 2008, based on its quality product range and long-standing customer relationships.

Strong financial and operational performance for the year was achieved with revenue increasing 86% from R11,5 billion in 2007 to R21,4 billion. Operating profit increased by R7,5 billion from R6,0 billion in 2007 to R13,5 billion, principally as a result of:

- The year-on-year weighted average price of iron ore from export sale volumes increased by 64% from US\$53,70 per tonne to US\$88,31 per tonne (taking into account small volumes of lower quality production sold at discounted prices during the fourth quarter of 2008), contributing R5,6 billion to operating profit.
- The weakening of the average exchange rate of the Rand to the US Dollar (average spot exchange rates – R8,25/US\$1,00 in 2008 compared with R7,03/US\$1,00 in 2007), which contributed R2,6 billion to operating profit.
- Increased operating profit from shipping operations of R189 million. Revenue from shipping operations increased by R1,4 billion to R2,5 billion in 2008, whilst shipping expenses increased by R1,2 billion to R2,1 billion.
- Increased export sales volumes added R263 million.
- All of which was partially offset by a R1,1 billion or 24% increase in net operating

expenses (excluding shipping expenses) after taking into account foreign exchange gains realised during 2008 of R1,0 billion. Production costs for Sishen Mine have increased by 36% to R3,8 billion and by 15% to R628 million for Thabazimbi Mine principally due to increased tonnes mined and production volumes at Sishen Mine, increases in prices of diesel, blasting material products and steel products, partially offset by lower waste stripping at Thabazimbi Mine. Inventory movements were adversely impacted by the cost associated with the utilisation of work-in-process inventory during 2008, compared with the net stockpiling of work-in-process inventory during 2007. Selling, rail and distribution costs increased by 52% year-on-year due to increases in rail and port tariffs, a higher load factor as Transnet ramps up for additional export volumes, and the payment to Transnet of a once-off settlement for prior years of R200 million.

Export sales volumes from Sishen Mine for the year increased marginally by 4% to 24,9Mt impacted by a drop in demand in the fourth quarter predominantly in Europe and to a lesser extent the Far East. Sishen Mine's South African domestic sales volumes declined by 14% to 5,6Mt due to lower local demand. Production increased by 15% to 34Mt, principally as a result of the 4,7Mt of production during the year from the Jig plant. Production in the final quarter was affected principally due to the focus on increasing the quality of the production from Sishen Mine to secure export volumes in the short-term. Steps taken by the mine included the stockpiling of certain lower quality feedstock and reducing the throughput of the plants to ensure an improved quality was produced. The lower than anticipated sales in the last quarter left finished product stocks of 5,8Mt at 31 December 2008, approximately 3,5Mt in excess of base operating levels. During 2008 Thabazimbi Mine produced 2,7Mt and sold 2,5Mt in the South African domestic market.

Total tonnes mined at Sishen Mine increased by 3% to 107,6Mt. During the year a net additional 1,5Mt of B-grade material (with an iron content of between 55% and 60%) mined at Sishen

Mine at a cost of R202 million was stockpiled for use in the Jig plant to bring the total B-grade material stockpiled since 1 January 2007 to 10,8Mt with a cost of R642 million. The increase in the cash cost per tonne of Sishen Mine has been negatively impacted by the lower than anticipated production volumes from the Jig plant and a reduction in the yield achieved by the DMS plant, due to geological challenges in the main pit, requiring additional volumes to be treated to achieve the required production. Unit cash cost for the year of R96,53 per tonne has increased by 30% from R74,32 per tonne in 2007 or by 11% in US Dollar terms before taking into account R251 million to produce the 0,9Mt of additional products to mitigate production losses from the Jig plant (which adds R5,33 per tonne).

Cash flows of R14,5 billion were generated from operations, an increase of R8,7 billion on the R5,8 billion generated in 2007. These cash flows were used to pay taxation of R4,3 billion and dividends of R4,9 billion during the year. At 31 December 2008, the group had a gross debt position of R3,9 billion and cash on hand of R3,8 billion. Interest cover remained strong at 33 times (19 times at the end of 2007). Capital expenditure of R841 million was incurred to maintain operations and R1,7 billion to expand operations.

Sishen South Project

Kumba announced the approval of an R8,5 billion investment in the new Sishen South Mine on 31 July 2008. The Sishen South Mine will be located 80 km south of the Sishen Mine, near Postmasburg in the Northern Cape. Kumba was granted new order mining rights for Sishen South and an integrated water-use licence has been issued for the mine. An agreement has now been signed with Transnet in respect of the expansion of the Sishen-Saldanha export line and finalisation of logistical arrangements. Earthworks have started and bulk construction is scheduled to commence with the establishment of the major civil contracts during the first quarter of 2009. Planned 2009 capital expenditure at Sishen South has been optimised along the critical path and first production remains scheduled for the first half of 2012, ramping up to full capacity of 9Mtpa in 2013.

Mineral resources and reserves

There have been no material changes to the resources and reserves as disclosed in the 2007 Kumba Annual Report.

Prospects

The uncertainties and challenges faced by the global economy have led to a period of unprecedented volatility and rapid decreases in commodity prices and volumes traded. Kumba plans to increase production by some 10% during 2009 should stable market conditions prevail. Kumba will continue to target customers in China in an attempt to redirect any lost contract volumes from Europe and Japan. In the short-term minor production cut-backs may be required to produce higher quality products. However, more substantial cut-backs in production will depend on the scale of demand cuts from Europe and Japan and the extent to which this can be absorbed by China. The first half of 2009 is likely to be very challenging for iron ore sales volumes.

Price negotiations will be a key area of uncertainty in this volatile economic period. Kumba's quality product range and the strength of long-standing customer relationships should enable the group to continue trading successfully. Kumba remains confident that the iron ore market fundamentals remain robust in the long term.

The board welcomes the announcement by the National Treasury to defer the mining royalty, which will assist Kumba in reducing anticipated costs thereby enhancing its ability to proceed with the development of the Sishen South project as planned. This project will add a further 2 800 jobs during the development to the 5 000 current jobs at existing operations.

Changes in directorate

Ras Myburgh handed over the role of Chief Executive Officer of Kumba to Chris Griffith on 1 July 2008, whereupon Ras began his secondment to Eskom.

On 14 December 2008, Zarina Bassa was appointed as a non-executive director of Kumba.

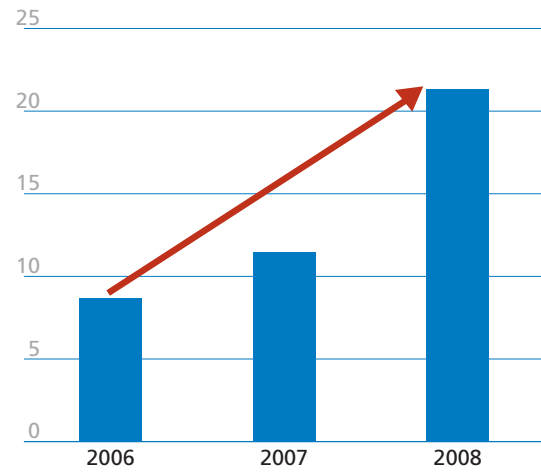
Annual results for the year ended 31 December 2008

Operating results

Operating results

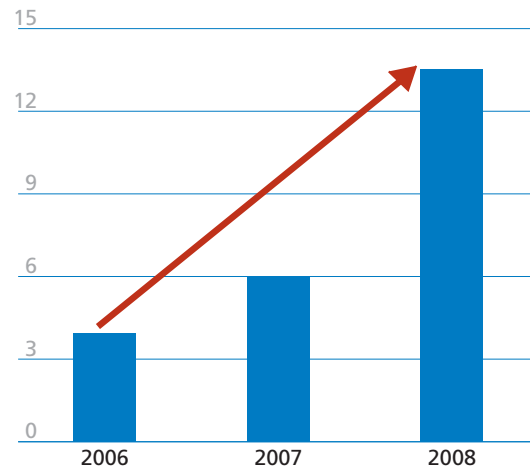
The key indicators of our operating results during the past year are:

Revenue (R billion)



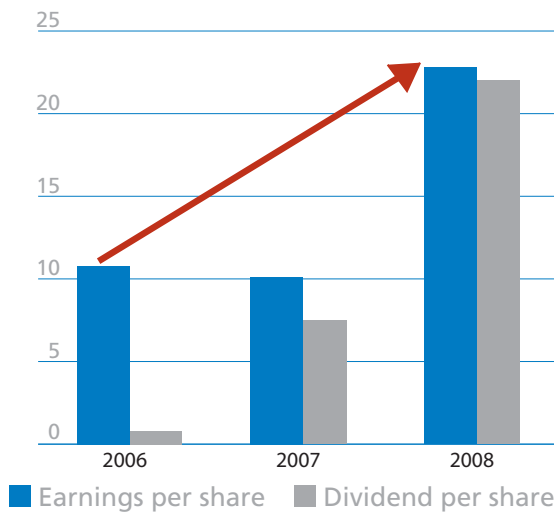
CAGR 2006 – 2008 : 35%

Operating profit (R billion)



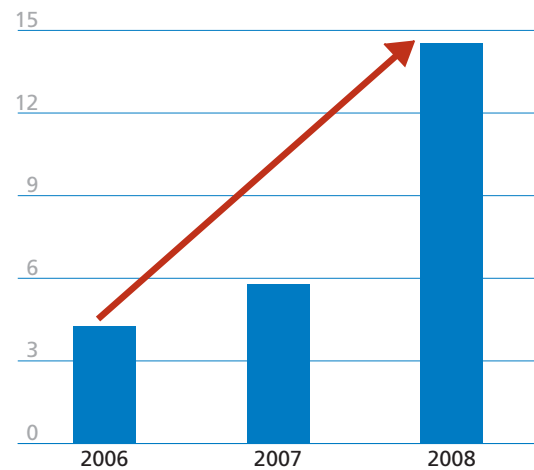
CAGR 2006 – 2008 : 51%

Attributable earnings and dividend per share (Rand)



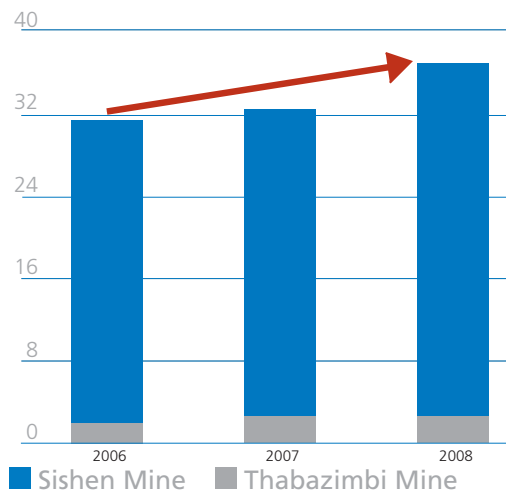
■ Earnings per share ■ Dividend per share

Cash from operations (R billion)



CAGR 2006 – 2008 : 50%

Mine production (Mt)



■ Sishen Mine ■ Thabazimbi Mine