Notes to the condensed consolidated financial report

Corporate information

Kumba is a limited liability company incorporated and domiciled in South Africa. The main business of Kumba, its subsidiaries, joint ventures and associates is the exploration, extraction, beneficiation and marketing and sale of iron ore. The group has its primary listing on the JSE Limited.

The condensed consolidated financial report of Kumba and its subsidiaries for the year ended 31 December 2008 was authorised for issue in accordance with a resolution of the directors on 13 February 2009.

Basis of preparation and accounting policies

The condensed consolidated financial report for the year ended 31 December 2008 has been prepared in compliance with the South African Companies Act, No 61 of 1973, as amended, the Listings Requirements of the JSE Limited and International Accounting Standard 34, Interim Financial Reporting.

The condensed consolidated financial report has been prepared in accordance with the historical cost convention except for certain financial instruments, share-based payments and biological assets which are stated at fair value, and is presented in Rand, which is Kumba's functional and presentation currency.

Except for the early adoption of IAS 23 as disclosed, the accounting policies and methods of computation applied in the preparation of the condensed consolidated financial report are consistent with those applied for the year ended 31 December 2007, which comply with International Financial Reporting Standards ("IFRS").

Kumba adopted the revised IAS 23 Borrowing costs before its effective date, with effect from 1 January 2008. IAS 23 requires the capitalisation of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The requirements of the standard have been applied retrospectively. The effect on basic earnings per share is an increase of 29 cents and 26 cents for the year ended 31 December 2008 and 2007 respectively. The effect on headline earnings per share is an increase of 30 cents and 26 cents for the year ended 31 December 2008 and 2007 respectively. The effect on equity is disclosed in the table below.

	Audited 31 Dec 2008 Rm	Restated 31 Dec 2007 Rm
Increase in opening balance	**82**	1
Increase in profit before taxation for the year	**162**	140
Taxation	**(45)**	(39)
Increase in equity attributable to equity holders of Kumba	**199**	102
Minority interest	**(23)**	(20)
Increase in shareholders' equity	**176**	82

The following new interpretations and change to an existing standard, which are effective for the 2008 financial year, have no impact on the financial position, results or cash flow information of the group for the year:

- IFRIC 12, Service Concession Arrangements (effective from 1 January 2008);
- IFRIC 14, IAS 19 limit on defined benefit asset (effective from 1 January 2008); and
- Amendment to IAS 39, Financial Instruments: Recognitions and Measurement (effective from 1 July 2008).

The accounting standard, amendments to issued accounting standards and interpretations, which are relevant to the group, but not yet effective at 31 December 2008, has not been adopted. The group is currently evaluating the impact of these pronouncements.

Net debt

Kumba's net debt position at balance sheet dates is as follows:

	Audited 31 Dec 2008 Rm	Audited 31 Dec 2007 Rm
Long-term interest-bearing borrowings	**977**	1 040
Short-term interest-bearing borrowings	**2 881**	2 490
Total	**3 858**	3 530
Cash and cash equivalents	**(3 810)**	(952)
Net debt	**48**	2 578
Total equity	**8 506**	3 397
Interest cover (times)	**33**	19

Debt

It is the intention of management to fund Kumba's capital expansion projects through debt financing. For this purpose, the group has secured a new R5,4 billion term debt facility. As this debt is used to finance Kumba's expansion, the debt profile should return to a longer-term profile in the medium term. Included in the R2,9 billion short-term borrowings, is a R2,84 billion revolving facility which reaches maturity in November 2009. The maximum net debt in terms of current covenants is R5,5 billion. Kumba was not in breach of any of its covenants during the year. The group's total undrawn borrowing facilities at 31 December 2008 amounted to R6,1 billion.

Share capital

During the year Kumba issued 2 357 920 new ordinary shares to the Kumba Iron Ore Management Share Trust. The remaining unissued shares are under the control of the directors of Kumba until the next annual general meeting.

Segmental reporting

Kumba's single business segment is the mining, extraction and production of iron ore. The financial disclosures of the business segment are presented in the condensed consolidated financial report.

Kumba generated its revenue through the sale and transportation of iron ore to customers in the following geographical regions:

	Audited 31 Dec 2008 Rm	Audited 31 Dec 2007 Rm
Total revenue	**21 360**	11 497
Domestic	**1 341**	1 349
Export	**20 019**	10 148
Europe	**5 218**	2 999
China	**9 203**	4 284
Rest of Asia	**5 598**	2 865

Notes to the condensed consolidated financial report

(Continued)

Significant items included in operating profit

Operating expenses

Operating expenses are made up as follows:

	Audited 31 Dec 2008 Rm	Audited 31 Dec 2007 Rm
Production costs	**4 030**	3 740
Movement in inventories	**(289)**	(402)
Finished products	**(190)**	24
Work-in-progress	**(99)**	(409)
Other	**—**	(17)
Cost of goods sold	**3 741**	3 338
Selling and distribution costs	**1 976**	1 300
Cost of services rendered – shipping	**2 086**	887
Impairment of property, plant and equipment	**50**	—
Sublease rent received	**(6)**	(6)
Operating expenditure	**7 847**	5 519

Operating profit has been derived after taking into account the following items:

	Audited 31 Dec 2008 Rm	Audited 31 Dec 2007 Rm
Staff costs	**1 375**	1 017
Share-based payment expenses	**106**	122
Depreciation of property, plant and equipment	**332**	228
Impairment of property, plant and equipment	**50**	—
Loss/(profit) on disposal and scrapping of property, plant and equipment	**12**	(14)
Finance gains	**(1 035)**	(40)
Operating profit capitalised	**370**	(93)
– Revenue	**579**	—
– Expenses	**(209)**	(93)

Share-based payment expenses

The decrease in the share-based payment expense is mainly due to the revision of certain assumptions relating to vesting conditions used in determining the share-based payment expense for the year. This was partly offset by an increase in the share-based payment expense mainly due to 221 896 additional awards on the Long-term Incentive Plan ("LTIP") and 220 390 additional rights on the Share Appreciation Rights Scheme ("SARS") that were awarded to employees during March 2008. In addition 685 082 share options were awarded to participants of the Envision scheme during the year.

Depreciation of property, plant and equipment

Management has reviewed the residual values and remaining estimated useful lives of assets and adjusted these estimates for certain items of property, plant and equipment as at 31 December 2007. The change in accounting estimate was applied prospectively from that date for the 2008 financial year. The revised estimated useful lives and residual values of these assets resulted in a decrease of R57 million in the current year's depreciation charge.

Operating profit capitalised

The capitalisation of operating profit for the year ended 31 December 2008 relates to operating costs of R209 million incurred on 0,9Mt of ore from the Jig plant that have been capitalised to property, plant and equipment as part of the directly attributable cost of bringing the Jig plant to the location and condition necessary for it to be capable of operating in the manner intended by management. The related revenue of R579 million from the sale of ore from the Jig plant earned during this development stage was also capitalised.

On 1 June 2008 the capitalisation of the revenue and expenses was ceased as substantially all the activities for bringing the Jig plant in the location and condition necessary for it to be capable of operating in the manner intended by management had been completed.

Property, plant and equipment

Capital expenditure on property, plant and equipment was R2,6 billion for the year ended 31 December 2008. This includes the R370 million capitalised profit as discussed above. A total of R4,5 billion was transferred from assets under construction to machinery, plant and equipment for the year. Of this, R4,2 billion related to the Jig plant.

Business combination

Acquisition

Kumba made a payment of US$5 million towards the end of 2007 in relation to the Kamambolo and Forecarriah iron ore deposits in the Republic of Guinea, with a purpose of acquiring a controlling stake in Camfo Minerals CMS-SARL and Sud-Sud Group Development SA through its investment in Kumba Holdings West Africa BV, subject to certain conditions. This was accounted for as a prepayment as at 31 December 2007. In January 2008, the conditions precedent contained in the purchase agreement were fulfilled by the parties. The excess purchase price over the fair value of the net assets was ascribed to mineral properties.

Since the acquisition date exploration costs of R46 million have been incurred and are included in consolidated profit for the year.

Impairment of property, plant and equipment

Based on the latest exploration results the West African mineral properties have been impaired to their recoverable amount.

Related party transactions

During the year Kumba, in the ordinary course of business, entered into various sale and purchase transactions with associates and joint ventures. These transactions were subject to terms that are no less favourable than those offered by third parties.

Included in cash and cash equivalents at 31 December 2008 is a short-term deposit facility placed with Anglo American SA Finance Limited of R2,9 billion.

Contingent liabilities

Sishen Iron Ore Company issued bank guarantees for property acquisitions of R77 million during the year.

There have been no significant changes in the contingent liabilities disclosed at 31 December 2007 that arise from the guarantees provided for environmental rehabilitation and decommissioning obligations of the Kumba Rehabilitation Trust Fund.

Legal proceedings

Lithos Corporation (Pty) Limited ("Lithos")

Kumba continues to defend the merits of the claim and is of the view, and has been so advised, that the basis of the claim and the quantification thereof is fundamentally flawed. A trial date has been set for the first quarter of 2010. No liability has been raised for this matter.

Notes to the condensed consolidated financial report

(Continued)

Miferso

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 matter has been enrolled for hearing in the third quarter of 2009. These proceedings are confidential in nature.

Sishen Supply Agreement

Kumba and ArcelorMittal have agreed to an arbitration process to resolve key differences of interpretation of the Sishen Supply Agreement. Arbitration proceedings were initiated in 2007 by Kumba. This matter has been enrolled for hearing during the first half of 2009. These proceedings are confidential in nature.

Post-balance sheet date events

The directors are not aware of any material 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.

Corporate governance

The group subscribes to the Code of Good Corporate Practices and Conduct as contained in the King II Report on corporate governance and the board has satisfied itself that Kumba has complied throughout the year under review in all material aspects with the code.

Independent audit opinion

The auditors, Deloitte & Touche have issued their unmodified audit opinion on the condensed consolidated financial report for the year ended 31 December 2008. A copy of their unmodified audit opinion is available for inspection at the company's registered office.

On behalf of the board

PL Zim	**CI Griffith**	13 February 2009
Chairman	Chief Executive Officer	Pretoria

Notice of final cash dividend

At its board meeting on 13 February 2009 the directors declared a final cash dividend of R13,00 per share on the ordinary shares from profits accrued during the year ended 31 December 2008. The salient dates are as follows:

• Last day for trading to qualify and participate in thefinal dividend (and change of address or dividend instructions)	Friday, 6 March 2009
• Trading *ex* dividend commences	Monday, 9 March 2009
• Record date	Friday, 13 March 2009
• Dividend payment date	Monday, 16 March 2009

Share certificates may not be dematerialised or rematerialised between Monday, 9 March 2009 and Friday, 13 March 2009, both days inclusive.

By order of the board

VF Malie	13 February 2009
Company secretary	Pretoria