



# Annual results for the year ended 31 December 2008





## 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.

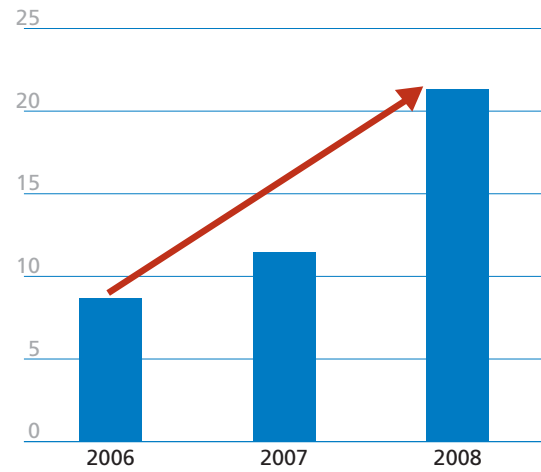
## Annual results for the year ended 31 December 2008

### Operating results

#### Operating results

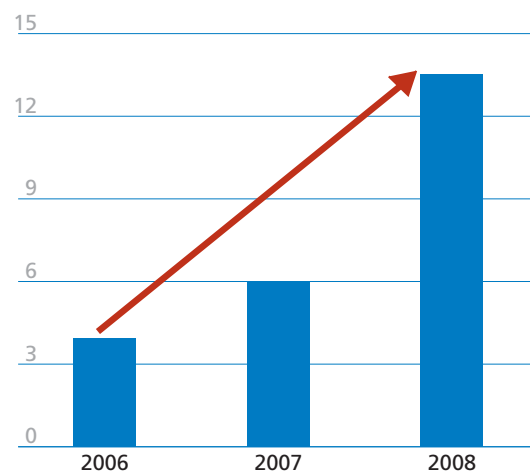
The key indicators of our operating results during the past year are:

Revenue (R billion)



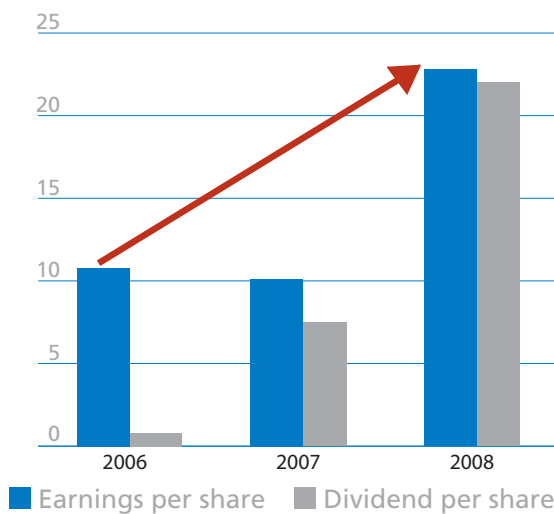
CAGR 2006 – 2008 : 35%

Operating profit (R billion)



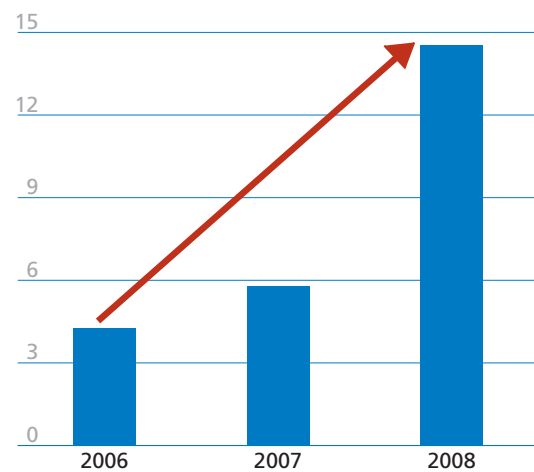
CAGR 2006 – 2008 : 51%

Attributable earnings and dividend per share (Rand)



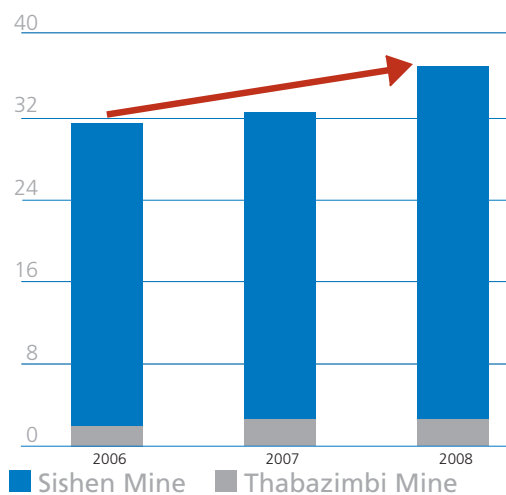
■ Earnings per share ■ Dividend per share

Cash from operations (R billion)



CAGR 2006 – 2008 : 50%

Mine production (Mt)



■ Sishen Mine ■ Thabazimbi Mine

## Production report

### Quarterly overview

Total iron ore production increased by 6% in the fourth quarter from a year earlier to 9,6Mt. This was due mainly to the 1,6Mt of production delivered by the Jig plant.

'000 tonnes	Quarter ended			Quarter ended		
	<b>31 Dec 2008</b>	31 Dec 2007	Change %	30 Sep 2008	30 Sep 2007	Change %
Iron ore	<b>9 552</b>	8 992	6	10 084	7 813	29
– Lump	<b>5 897</b>	5 221	13	5 965	4 661	28
– Fines	<b>3 655</b>	3 771	(3)	4 119	3 152	31
Mine production	<b>9 552</b>	8 992	6	10 084	7 813	29
– Sishen Mine	<b>8 857</b>	8 268	7	9 394	7 210	30
DMS plant	<b>7 028</b>	8 095	(13)	7 346	7 210	2
Jig plant	<b>1 647</b>	173	—	1 808	—	—
Other	<b>182</b>	—	—	240	—	—
– Thabazimbi Mine	<b>695</b>	724	(4)	690	603	14

### Yearly overview

#### Sishen Mine – DMS plant

28,4Mt was produced by the DMS plant for the year, 1,1Mt less than the record production achieved from the plant in 2007. Production was negatively affected due to a reduction in the yield of the plant due to a lower feed grade fed to the plant.

#### Sishen Mine – Jig plant (*Sishen Expansion Project*)

Production from the Jig plant for the year was 4,7Mt. This production level was lower than anticipated and was impacted by several technical difficulties as well as the late commissioning of the crushing and sample plants and the scaling back on throughput in the fourth quarter. Based on the recent performance from the Jig plant, it is anticipated that an annualised production rate of 13Mt should be achieved during the fourth quarter of 2009. Production may need to be scaled back if stable market demand does not prevail during 2009.

'000 tonnes	Twelve months ended		
	<b>31 Dec 2008</b>	31 Dec 2007	Change %
Iron ore	<b>36 699</b>	32 401	13
– Lump	<b>22 042</b>	19 044	16
– Fines	<b>14 657</b>	13 357	10
Mine production	<b>36 699</b>	32 401	13
– Sishen Mine	<b>34 039</b>	29 728	15
DMS plant	<b>28 395</b>	29 555	(4)
Jig plant	<b>4 747</b>	173	100
Other	<b>897</b>	—	100
– Thabazimbi Mine	<b>2 660</b>	2 673	—

## Condensed group balance sheet

as at

	<b>Audited 31 Dec 2008 Rm</b>	Restated 31 Dec 2007 Rm
<b>Assets</b>		
<b>Non-current assets</b>	<b>8 205</b>	6 085
Property, plant and equipment	<b>7 911</b>	5 889
Biological assets	<b>8</b>	6
Investments in associates and joint ventures	<b>6</b>	2
Investments held by environmental trust	<b>237</b>	165
Long-term financial assets and prepayments	<b>32</b>	14
Deferred tax assets	<b>11</b>	9
<b>Current assets</b>	<b>8 498</b>	3 793
Inventories	<b>1 879</b>	1 310
Trade and other receivables	<b>2 262</b>	1 531
Current tax asset	<b>547</b>	—
Cash and cash equivalents	<b>3 810</b>	952
<b>Total assets</b>	<b>16 703</b>	9 878
<b>Equity and liabilities</b>		
Shareholders' equity	<b>6 859</b>	2 736
Minority interest	<b>1 647</b>	661
<b>Total equity</b>	<b>8 506</b>	3 397
<b>Non-current liabilities</b>	<b>3 351</b>	2 869
Interest-bearing borrowings	<b>977</b>	1 040
Deferred tax liabilities	<b>1 990</b>	1 490
Provisions	<b>384</b>	339
<b>Current liabilities</b>	<b>4 846</b>	3 612
Short-term interest-bearing borrowings	<b>2 881</b>	2 490
Short-term provisions	<b>310</b>	—
Trade and other payables	<b>1 655</b>	1 058
Current tax liabilities	<b>—</b>	64
<b>Total equity and liabilities</b>	<b>16 703</b>	9 878



## Condensed group income statement

for the year ended

	<b>Audited 31 Dec 2008 Rm</b>	Restated 31 Dec 2007 Rm
<b>Revenue</b>	<b>21 360</b>	11 497
Operating expenses	<b>(7 847)</b>	(5 519)
<b>Operating profit</b>	<b>13 513</b>	5 978
Finance income	<b>154</b>	102
Finance costs	<b>(405)</b>	(270)
<b>Profit before taxation</b>	<b>13 262</b>	5 810
Taxation	<b>(4 179)</b>	(1 807)
<b>Profit for the year</b>	<b>9 083</b>	4 003
<b>Attributable to:</b>		
Equity holders of Kumba	<b>7 208</b>	3 181
Minority interests	<b>1 875</b>	822
	<b>9 083</b>	4 003
<b>Attributable earnings per share (cents)</b>		
Basic	<b>2 280</b>	1 011
Diluted	<b>2 254</b>	995
<b>Dividend per share (cents)</b>		
Interim	<b>800</b>	350
Final*	<b>1 300</b>	400

\*The final dividend was declared subsequent to 31 December 2008 and is presented for information purposes.

## Headline earnings

for the year ended

	<b>Audited 31 Dec 2008 Rm</b>	Restated 31 Dec 2007 Rm
<b>Reconciliation of headline earnings</b>		
Attributable profit	<b>7 208</b>	3 181
Net loss/(profit) on disposal and scrapping of property, plant and equipment	<b>12</b>	(14)
Impairment of property, plant and equipment	<b>50</b>	—
Realisation of foreign currency translation reserve	<b>19</b>	(34)
	<b>7 289</b>	3 133
Taxation effect of adjustments	<b>(9)</b>	1
Minority interest in adjustments	<b>(4)</b>	9
<b>Headline earnings</b>	<b>7 276</b>	3 143
<b>Headline earnings per share (cents)</b>		
Basic	<b>2 302</b>	1 000
Diluted	<b>2 275</b>	983
The calculation of basic and diluted earnings and headline earnings per share is based on the weighted average number of ordinary shares in issue as follows:		
Weighted average number of ordinary shares	<b>316 140 923</b>	314 618 406
Diluted weighted average number of ordinary shares	<b>319 778 849</b>	319 660 289
The adjustment of 3 637 926 shares to the weighted average number of ordinary shares is as a result of the expected vesting of share options already granted under the various share-based payment arrangements.		

## Condensed group statement of changes in equity

for the year ended

	<b>Audited 31 Dec 2008 Rm</b>	Restated 31 Dec 2007 Rm
<b>Total equity at the beginning of the year – as previously disclosed</b>	<b>3 397</b>	1 055
Change in accounting policy – borrowing costs	—	1
<b>Total equity at the beginning of the year – restated</b>	<b>3 397</b>	1 056
<b>Changes in share capital and premium</b>		
Shares (including treasury shares) issued during the year	<b>80</b>	53
<b>Changes in reserves</b>		
Equity-settled share-based payments	<b>88</b>	73
Profit for the year	<b>7 208</b>	3 181
Foreign currency translation differences	<b>562</b>	(51)
Movement in the revaluation of financial instruments	<b>4</b>	2
Dividends paid	<b>(3 819)</b>	(1 362)
<b>Changes in minority interest</b>		
Profit for the year	<b>1 875</b>	822
Dividends paid	<b>(1 051)</b>	(383)
Movement in minority interest in reserves	<b>162</b>	6
<b>Total equity at the end of the year</b>	<b>8 506</b>	3 397
<b>Comprising</b>		
Share capital and premium	<b>136</b>	56
Equity-settled share-based payment reserve	<b>343</b>	255
Foreign currency translation reserve	<b>564</b>	2
Cash flow hedge accounting reserve	<b>4</b>	—
Retained earnings	<b>5 812</b>	2 423
Shareholders' equity	<b>6 859</b>	2 736
– attributable equity holders of Kumba Iron Ore	<b>6 365</b>	2 538
– attributable to the minority interest in Sishen Iron Ore Company	<b>494</b>	198
Minority interest	<b>1 647</b>	661
<b>Total equity</b>	<b>8 506</b>	3 397

# Condensed group cash flow statement

for the year ended

	<b>Audited 31 Dec 2008 Rm</b>	Audited 31 Dec 2007 Rm
<b>Cash flows from operating activities</b>	<b>6 013</b>	2 750
Cash generated from operations	<b>14 519</b>	5 805
Net finance costs paid	<b>(401)</b>	(301)
Taxation paid	<b>(4 311)</b>	(1 401)
Dividends paid	<b>(3 794)</b>	(1 353)
<b>Cash flows from investing activities</b>	<b>(2 487)</b>	(2 064)
Capital expenditure	<b>(2 563)</b>	(2 119)
Proceeds from the disposal of non-current assets	<b>—</b>	26
Acquisition of investments	<b>(3)</b>	(2)
Other	<b>79</b>	31
<b>Cash flows from financing activities</b>	<b>(668)</b>	(828)
Share capital issued	<b>80</b>	53
Dividends paid to minority shareholders	<b>(1 076)</b>	(392)
Interest-bearing borrowings raised/(repaid)	<b>328</b>	(489)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>2 858</b>	(142)
Cash and cash equivalents at beginning of the year	<b>952</b>	1 094
<b>Cash and cash equivalents at end of the year</b>	<b>3 810</b>	952

## Salient features and operating statistics

for the year ended

	<b>Unaudited 31 Dec 2008</b>	Unaudited 31 Dec 2007
<b>Share statistics ('000)</b>		
Total shares in issue	<b>319 461</b>	317 104
Weighted average number of shares	<b>316 141</b>	314 618
Diluted weighted average number of shares	<b>319 779</b>	319 660
Treasury shares	<b>1 795</b>	1 766
Treasury shares (Rand million)	<b>86</b>	43
<b>Market information</b>		
Closing share price (Rand)	<b>162</b>	285
Market capitalisation (Rand million)	<b>51 753</b>	90 374
Market capitalisation (US\$ million)	<b>5 482</b>	13 281
<b>Net asset value per share (cents)</b>	<b>2 163</b>	863
<b>Capital expenditure (Rand million)</b>		
Incurred	<b>2 563</b>	2 119
Contracted	<b>2 090</b>	589
Authorised but not contracted	<b>8 753</b>	1 185
<b>Capital expenditure relating to Thabazimbi Mine to be financed by ArcelorMittal (Rand million)</b>		
Contracted	—	2
Authorised but not contracted	—	2
<b>Operating commitments (Rand million)</b>		
Operating lease commitments	<b>144</b>	56
Shipping services	<b>395</b>	698
<b>Economic information</b>		
Average Rand/US dollar exchange rate (Rand/US\$)	<b>8,25</b>	7,03
Closing Rand/US dollar exchange rate (Rand/US\$)	<b>9,37</b>	6,81
<b>Operating statistics (Mt)</b>		
Production	<b>36,7</b>	32,4
Sales	<b>33,0</b>	32,9
– export	<b>24,9</b>	24,0
– domestic	<b>8,1</b>	8,9
Sishen Mine unit cost (Rand per tonne)	<b>110,77</b>	79,90
Sishen Mine cash cost (Rand per tonne)	<b>101,86</b>	74,32
Sishen Mine unit cost (US\$ per tonne)	<b>13,43</b>	11,37
Sishen Mine cash cost (US\$ per tonne)	<b>12,35</b>	10,57

## 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.

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

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

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

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

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

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

**CI Griffith**  
Chief Executive Officer

13 February 2009  
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 the final 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**  
Company secretary

13 February 2009  
Pretoria

**Registered office:**

Centurion Gate,  
Building 2B,  
124 Akkerboom Road,  
Centurion, 0157  
Republic of South Africa.  
Tel: +27 12 683 7000  
Fax: +27 12 683 7009

**Transfer secretaries:**

Computershare Investor Services  
(Pty) Limited,  
70 Marshall Street,  
Republic of South Africa.  
PO Box 61051,  
Marshalltown, 2107

**Sponsor to Kumba:**

Rand Merchant Bank (a division of  
FirstRand Bank Limited)

**Directors:**

*Non-executive* – PL Zim (Chairman),  
PM Baum, GS Gouws,  
PB Matlare, DD Mokgatle,  
AJ Morgan, N Moyo,  
ZBM Bassa;  
*Executive* – CI Griffith (CEO),  
VP Uren (CFO)

**Company secretary:**

VF Malie

**Company registration  
number:**

2005/015852/06  
Incorporated in the Republic  
of South Africa

**JSE code:**

KIO

**ISIN:**

ZAE000085346  
("Kumba" or "the company" or "the  
group")





January

February

March

April

May

June