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We see what *could* be

Kumba Iron Ore

Kumba Iron Ore Limited, a member of the global Anglo American plc group, is a leading supplier of seaborne iron ore. In 2008 Kumba exported over 24 million tonnes of superior iron ore to customers in a range of geographical locations around the globe; from China, Japan and Korea to a number of countries in Europe and the Middle East.

At present, Kumba's iron ore comes from its Sishen and Thabazimbi mines, located in South Africa's Northern Cape and Limpopo provinces respectively. A major new mine is being developed at Postmasburg in the Northern Cape that will start producing in 2012, ramping up to full production of 9Mtpa in 2013.

Since listing on the Johannesburg Stock Exchange (JSE) in 2006, Kumba has proven itself a unique pure-play iron ore investment, known for its product quality, extensive base of mineral resources and reserves and progressive approach.

The group is well positioned not only to weather the current downturn in the demand for commodities, but to make the most of the inevitable upswing when it follows.

About this Annual financial statements

- The Annual financial statements have been produced by Kumba Iron Ore Limited (Kumba) for the 2008 financial year, that is from 1 January 2008 to 31 December 2008.
- The Annual financial statements are available on the Internet at www.kumba.co.za
- In addition to the Annual financial statements, Kumba produces the following reporting publications:
  - Annual review, that provides a concise overview of the group's operations for the financial year
  - Sustainable development report, on the social-economic and environmental impacts of the company's activities on our journey to sustainability.

Operating profit and headline earnings more than doubled

Numerous awards entrench Kumba as new-generation mining group

Total cash dividend of R21.00 per share

Sishen Mine production up 15% to 34Mt

9Mtpa Sishen South project approved, funding in place, construction under way

Agreement finalised with Transnet on expanding iron ore export channel

Granting of new order mining rights strengthens business security

Chairman's statement

Kumba was granted new order mining rights for Sishen Mine and Thabazimbi Mine and a new mining right for the Sishen South project. These milestones significantly strengthen the security of the business.

Kumba's second full year as a listed group was marked by several significant milestones, including receiving new order mining rights and approval of the nine-million tonnes per annum (Mtpa) Sishen South project. The review period also brought some of the toughest management challenges in recent memory – from the impact of unprecedented power outages in South Africa to the global financial crisis that has plunged major economies into recession.

Kumba began trading on the JSE Limited (JSE) in November 2006 following South Africa's largest mining empowerment transaction which successfully unbundled Kumba Resources into two listed vehicles, Kumba Iron Ore Limited and Exxaro Resources Limited. The value of Kumba as a long-term pure-play iron ore investment was amply demonstrated in the strong growth of the share price in its first year, although the trading range in our second year reflected the market-wide turmoil that characterised the review period.

Regulatory environment

In April 2008, Kumba was granted new order mining rights for Sishen and Thabazimbi mines, a new mining right for the Sishen South project, and integrated water-use licences were issued for Sishen and Sishen South in terms of section 21 of the National Water Act, 1998. Thabazimbi's water-use license is expected to be granted in 2009.

The Sishen South mining right was officially executed in late 2008 and final discussions on executing those for Sishen Mine, as well as Thabazimbi Mine and its prospective expansion project (Phoenix) are under way.

With the required regulatory approvals now in hand, we can pursue our growth strategy with security and stability. However, we acknowledge that this custodianship of our natural resources, both minerals and water, carries with it the responsibility to deliver on the social and labour plans, as well as waste and water management plans we submitted in our various applications.

We understand that the provisions of legislation that govern our operations should not be taken lightly. It is therefore crucial that we deliver on our undertakings, not just to secure our future as a group, but because it is the right thing to do.

Trevor Manuel, Minister of Finance, announced in his budget speech in February 2009 that the implementation of the **royalty bill** has been deferred to 2010. This is a much welcomed development. Kumba and the Chamber of Mines are finalising the interpretations of the various definitions contained in the bill that relate to iron ore to clarify the correct royalty payments when the bill is passed.

The **mine health and safety amendment bill**, has been approved by the National Assembly, and the National Council of Provinces and is currently with the President. The bill contains certain onerous proposals that could hamper the industry's ability to attract and retain much needed scarce experience and human capital. The Chamber of Mines is addressing these with the authorities. Given that the safety of all is a common goal for both the industry and government, we are confident that an appropriate solution can be developed.

South Africa's pioneering **mining charter** will be reviewed in 2009, as agreed to by the key stakeholders in 2004. As an industry, there has been good progress in meeting the targets set in 2004. Kumba is a case in point: our own 2006 empowerment transaction created a group in which employees and communities are active shareholders, project development fully considers social and environmental issues, and empowerment is evident in every operational aspect from training and development to procurement practices. The group is already complying with the 2014 targets set in respect of BEE equity.

The group was rated first in the mining sector and seventh overall in the annual *Deloitte Best Company to Work For* 2008 survey.

Our people

Kumba's progressive human resources policies were recognised on several fronts during the year:

- The group was the only mining company to receive a national good practice award from the Department of Labour in recognition of its contribution over the past two years towards the national skills strategy.
- Kumba was ranked first in the skills development category of the 2008 *Financial Mail Top Empowerment Companies* awards.
- The group was rated first in the mining sector and seventh overall in the annual *Deloitte Best Company to Work For* 2008 survey.

This last award is particularly significant for Kumba because it builds on the accolades received by our predecessor Kumba Resources. It tangibly underscores the value we attribute to every one of our employees and their skills, and demonstrates the fulfilment they derive from a career with our group.

The sudden change in market conditions has brought about new challenges for Kumba.

Business environment

The present global economic meltdown is unprecedented in terms of scale and extent. Iconic companies have gone bankrupt, and household names are facing similar fates. In the past year, the value of stock markets around the world has almost halved from its peak to some US$30 trillion. While in global terms South Africa has fared relatively well so far, we believe the implications of this crisis are still unfolding.

The USA is now officially in recession, as are Japan and the European Union, and global manufacturing has dropped to record lows with gross domestic product (GDP) levels low and declining across the globe. Equally, the effect of a drop in the Chinese GDP to 6.8% in the final quarter of 2008 had a worldwide multiplier effect.

In South Africa, GDP grew at 3.5% in 2008 and is now forecasted to drop to around 2.5% in 2009.

At the time of writing, the long-term strategies of steel makers and raw material suppliers have been superseded by short-term value-preservation plans across the board. For Kumba specifically:

- Most major steel mills have announced production cuts of up to 30% from the fourth quarter of 2008 as a result of weakening demand for steel and falling prices for their products. As a result, most iron ore producers have followed suit with production cuts.
- Lower utilisation of iron ore has resulted in large stockpiles of some 60Mt at Chinese ports (eight weeks of inventory compared with six weeks historically) and substantial iron ore inventories at steel mills. While the port stockpiles are down from highs of 90Mt, the sustainability or indeed source of this decrease has yet to be proven.
- In the South African steel market, demand is showing a similar drop off, with major producers announcing significant cutbacks and construction companies reporting postponed or cancelled orders. ArcelorMittal South Africa is reported in the media to have introduced a wide range of short-term interventions in response to falling demand for steel products. The company reportedly limited its steelmaking by 30% in the last quarter of 2008.

However, the market has been saved from complete collapse by the lower landed cost of iron ore to customers as a result of reducing freight rates, which are at five-year lows. For example, the spot freight rate from Saldanha to Qingdao in China has fallen from US$76/t in May this year to US$10/t six months later, protecting the operating margins of iron ore producers and providing a lower landed cost to steel producers.

The sudden change in market conditions has brought about new challenges for Kumba. Our foremost priority now is to ride out this turmoil as best as we can by improving efficiencies, spending wisely and working together with our customers to best manage the current crisis. In fact, we believe the current financial downturn is the ideal opportunity to reinforce the fundamentals of a well-run group.

In the medium to long term, the factors that have supported growth over the past eight years are still present, namely Chinese urbanisation and growth in emerging markets.

Corporate governance

Kumba has a competent and representative board of directors that has focused on establishing the governance systems under which the group now operates. These were designed to ensure compliance with the provisions of the King II report on corporate governance, South African corporate laws and the international governance standards of our major shareholder.

Kumba continues to prove its ability to meet legislative compliance and governance standards. As a board, we are confident that Kumba will remain a responsible custodian of its natural resources and a significant contributor to South Africa's growth. The group is committed to leading in and through transformation. While a lot has been done to transform Kumba into a fully representative organisation, significant challenges remain.

Thanks

Midway through the year, our founding chief executive officer, Ras Myburgh, handed over the role to Chris Griffith when he was seconded to Eskom, as part of Kumba's contribution to developing solutions to the country's energy needs. Chris is an experienced mining engineer and his expertise in greenfields developments is proving an asset to the group's growth strategies. We thank Ras for his contribution as chief executive.

Kumba's people are an inspiring and formidable team. In an often challenging year, they have again proven their willingness to meet ambitious targets and their ability to overcome the most daunting obstacles. We acknowledge with gratitude their contributions to our results.

Lazarus Zim
Chairman

13 February 2009

Chief executive officer's review

126%

Increase in operating profits

50% improvement

LTIFR

Calendar year 2008 was a period of many opportunities and considerable challenges across the private and public sectors, locally and internationally. For Kumba, the first three trading quarters provided the solid foundation to withstand a marked global downturn in iron ore demand in the final quarter and deliver record financial results.

Our group recorded several highlights, ranging from financial results that reflect a 126% increase in operating profits to improved safety performance and awards for our people practices. While the latter are summarised in the Chairman's statement, they will be detailed in our sustainable development report to be published in April this year.

Safety

On the journey to our goal of zero harm, the 2008 group safety performance – measured in terms of lost-time injuries – reflected a 50% improvement on the prior year. In September 2008, Thabazimbi Mine set a new safety record of 366 days without a lost-time injury and six years without a fatality. Sishen Mine achieved a lost-time injury frequency rate (LTIFR) of 0.12, compared to 0.23 in 2007. Regrettably, despite this significant improvement in LTIFR, Mr Kagiso Peace Leboa was fatally injured at Sishen Mine in April, as reported previously. The board again offers its deepest condolences to his family and friends.

In the second six months of the year, there were no fatalities at Kumba. For all of us, this was an important demonstration of what we can achieve with the correct attitude, procedures and discipline.

People

Kumba's long-standing focus on developing the full potential of its people is paying dividends in the depth of the group's pool of available talent. Some 6% of our annual operating budget is spent on people development; more than double the national average. The group's skills development programme supported around 700 individuals at a cost of R85 million in 2008, including graduate professionals in training, bridging school students, apprentices, and employees in Adult Basic Education and Training (ABET) programmes.

While we were very pleased with the awards we received during the year for our people development (i.e. Kumba was ranked first in the skills development category of the 2008 *Financial Mail Top Empowerment Companies* awards), our aim is continuous improvement. Accordingly, we conducted a number of surveys among employees in 2008, with almost 12,000 responses painting a clear picture of Kumba's strengths and weaknesses. Specific interventions are being developed to address areas for improvement and ultimately these will be incorporated into the organisational culture programme.

Transformation

Within Kumba, steady progress is being made in transforming our group into an equitable, representative and empowering workplace. Notable achievements during the year included reaching our employment equity target of 40% of top managers being historically disadvantaged South Africans (as per the mining charter), and exceeding the women in mining target of 10%. Substantial management attention is being given to improving the participation of women in core mining skills categories.

Through Envision, our employee share participation scheme, most of our staff members are also shareholders in Kumba. Since its formation in November 2006, 4,363 participating employees have received a total of R43 million in dividends. A further R8,000 will be paid per participant from the dividend declared in February 2009. Over time, and despite the freefall in equity prices during the year, meaningful value is being created for participants through both dividends and the appreciation of the Kumba share price from its listing level of R110 to R162 at 31 December 2008.

Overall, we believe that merely focusing on compliance to transformation targets is not enough but that we should exceed these. Our drive towards inclusivity and representation at all levels remains in place.

Business performance

The global economic slowdown, that started with the sub prime crisis, rapidly moved into other areas towards the end of 2008. The mining sector has been particularly affected as demand fell for various commodities, along with price reductions for virtually all our products.

Kumba's 2008 record financial results are only partly attributable to record iron ore price increases in recent years. They also reflect growing production volumes as the jig plant ramps up, despite the impact of reduced demand for iron ore and subsequent lower sales in the final quarter.

Against this background, Kumba – in tandem with the Anglo American group – critically reviewed its capital expenditure plans for 2009 and has taken decisive action, reducing planned expenditure by around 20% to some R4.0 billion (US$425 million). Management will continue to review capital expenditure and costs against developing market conditions. Although capital spend has been re-evaluated, the Sishen South project remains on track with expenditure prioritised along the critical path.

Kumba's high-quality iron ore is produced at low cost on a delivered basis, and the company is thus well placed to weather current market volatility. In the present environment, Kumba's Sishen Mine will look to secure export volumes in the short term by focusing on increasing the quality of products to its customers, even though this may marginally reduce volumes.

We will also concentrate on making a more meaningful impact on the rest of the value chain, such as ports and shipping, to optimise returns for shareholders.

Operational performance

Sishen Mine

At Sishen Mine production increased 15% year-on-year to 34Mt.

The dense medium separation (DMS) plant continued to perform well, achieving stable production of 28.4Mt for 2008. Other higher cost production initiatives (to offset jig plant shortages in the first half of 2008) added 0.9Mt.

The jig plant commenced production towards the end of 2007 (0.3Mt), after a delayed start due to the need to re-cast the crushers. As a result of the late start and some technical difficulties 2008 production was unlikely to meet the anticipated 8Mt. During the review period, however, the seventh and eighth jig modules were commissioned ahead of schedule, and the sample plant commissioned in August. At the interim stage, we noted that production of some 5Mt was more likely for the full year. Actual annual production was slightly less, at 4.7Mt, due to the drive for higher quality in the final quarter to counteract weak demand.

Notwithstanding a 15% increase in production, export volumes for the period rose only 4% to 24.9Mt, due to Transnet rail shortages in the third quarter and shiploader repairs as well as weaker demand for iron ore in the fourth quarter. This resulted in a build up of stock at both Sishen Mine and the Saldanha port.

In the final quarter we took the strategic decision to stockpile quality lump ore to meet still-strong medium to long-term demand and instead sell lower priced fine ore which was in demand at the time.

Given Sishen Mine's inland location, transport logistics are an important element in maintaining margins and export volumes. During the review period, state transport utility Transnet's performance on the railway line from Sishen to Saldanha benefited greatly from its decision to make more locomotives available in the second half of 2008.

In the second six months of the year, there were no fatalities at Kumba. For all of us, this was an important demonstration of what we can achieve with the correct attitude, procedures and discipline.

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In the port of Saldanha, Transnet introduced dual shiploading in early 2008, greatly facilitating enhanced throughput capacity. In early October, Transnet took both shiploaders out of operation after it had detected steel buckling. Emergency repairs were completed in just over a week.

Thabazimbi Mine

Thabazimbi Mine recorded good production for the year, with sales in line with the requirements of its customer, ArcelorMittal South Africa. Commendably, the mine's teams produced a record safety performance in 2008.

We reported last year that Thabazimbi's life-of-mine was extended to 2014 by including reserves now considered economical to mine given the change in iron ore prices over recent years. In addition, the company has appointed a project team to conduct a feasibility study on exploiting the banded iron ore formation at Phoenix. This project can potentially produce 3.4Mtpa of lump ore and sinter feed material for over 20 years. Alternative markets are being evaluated as part of the study, which will continue into 2010.

Sishen South Project

Facts about Sishen South

- 9 million tonnes per year of direct shipping ore (DSO)
- 373 million tonnes mineable resource
- Over R8.5 billion nominal capital expenditure
- 700 direct jobs, 4,000 indirect jobs
- Life-of-mine initially 20 years, extension probable

The Sishen South project was approved in July 2008. This R8.5 billion investment – R2.5 billion of which has been committed to date – involves developing a greenfields open cast operation some 80km south of Sishen Mine. A new order mining right and the necessary integrated water-use licence were granted in the second half of the year.

To fund this expansion Kumba has secured a five-year, R5.4-billion funding facility which is more than adequate to meet the group's needs in 2008 and 2009. Planned capital expenditure for Sishen South in 2009 has been optimised along the critical path and the project remains on track for first saleable production in 2012.

In August 2008, Kumba and, Transnet, announced the expansion of the Sishen-Saldanha iron ore export channel from 47Mtpa to 60Mtpa: 9Mtpa of which has been allocated to Kumba for the development of Sishen South. The iron ore export channel expansion represents a capital investment of over R4 billion in real terms by Transnet for additional rolling stock, upgrading electricity infrastructure, constructing bypass loops and a 36km rail link by 2012 to service the new mine.

Sishen South is now firmly on track, with site earthworks, terracing and civil engineering projects well advanced.

Sustainability

Kumba remains committed to responsible mining practices: creating a safe and healthy working environment, training and developing employees, conserving the environment and natural resources, and maximising our potential to contribute socially and economically.

The goal of maximising our socio-economic contribution took a major step forward with the December 2008 launch of the Sishen Iron Ore Company (SIOC) Community Development Trust. This fulfils an undertaking we made ahead of listing to include community members as shareholders. Through its 3% stake in Kumba's SIOC activities, the trust has earned about R15 million to date for community development projects in the Northern Cape and Limpopo with another R4 million accruing from the next dividend.

This cash flow to the trust will increase significantly once the trust has repaid the loan advanced to acquire its shareholding in SIOC.

The main beneficiaries of the trust are neighbouring communities at Kumba's Sishen and Thabazimbi mines. Five independent community organisations have been identified as beneficiary trusts for channelling funds and resources to these communities.

Kumba's 2008 sustainable development report will contain a comprehensive review of the trust's activities and our other sustainability initiatives.

Prospects

The scale of change globally in late 2008 has massive implications for business – some short term and others where the impact may take much longer to manifest.

For the year ahead, we will focus on preserving cash, reducing costs and maintaining both the momentum and quality of our core activities with our current workforce. It is impossible to forecast how long this crisis will last, both in terms of demand for steel, and thus for iron ore, or for inventories to be worked through before we see a return to normal demand for iron ore. However, our long-term view of the iron ore market remains positive.

In South Africa, there are encouraging signs that inflation has peaked and the first interest rate cut since 2006 was announced at the end of the review period. This bodes well for alleviating the upward pressure on costs and comes at an opportune time for Kumba, given the flexibility (and concomitant cost) that will be required to manage the increasing geological complexity at Sishen Mine.

We believe that our superior product range, the strength of long-standing customer relationships, geographical market diversity, and good operating margin will sustain the group until the next market upturn.

Kumba is a well-run business – with good systems, influential shareholders and management depth – and we believe its ability to weather short-term challenges en route to sustainable long-term growth will be demonstrated in the year ahead.

Thanks

I would like to thank the board for the opportunity to lead this great company and my executive team for their support in my first six months in office. The commitment displayed daily by Kumba's formidable teams has only strengthened my confidence in this group's ability to achieve its goals. Equally, we are guided by a board of directors, headed by Lazarus Zim, that has shown great insight and guidance in these trying times.

Kumba also benefits from the strength of its major shareholder, Anglo American plc, through a number of shared services and the economies of scale of being part of a global group; and the shared values of the *One Anglo* programme that is now being rolled out across the group.

The support of our global base of customers through these turbulent times is greatly appreciated, as is that of our loyal suppliers.

Collectively, we face the future with confidence.

Chris Griffith
Chief executive officer

13 February 2009

Sishen South is now firmly on track, with site earthworks, terracing and civil engineering projects well advanced.

Project pipeline and growth

The current market conditions (particularly commodity price stability and timing of projects) have forced us to re-evaluate our project pipeline and potential timing of these projects.

Kumba's goal is to increase Northern Cape production to 50Mtpa by 2013. Our project pipeline remains robust: with Sishen Mine's jig plant at full production of 13Mtpa in 2010, Sishen South coming on stream in 2012 and ramping up to 9Mtpa in 2013 and several other projects at feasibility or prefeasibility stages. The timing of these projects will be carefully assessed against prevailing market fundamentals.

Financial review

Despite the volatility in the global economy towards the end of 2008 Kumba has delivered strong financial results for the year ended 31 December 2008.

The purpose of this review is to provide further insight into the financial performance and position of the group in the context of the environment in which we operate.

Highlights

up 86%
to R21.4 bn

Revenue

More than doubled
to R13.5 bn

Operating profit

headline earnings R7.3 bn
per share R23.02

Headline earnings

R21.00 per share

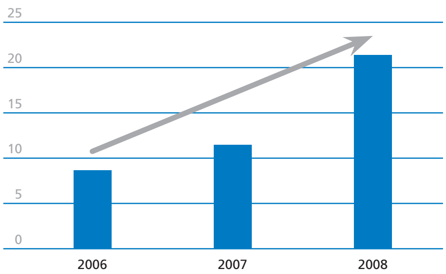
Total dividend

up 150%
R14.5 bn

Cash from operations

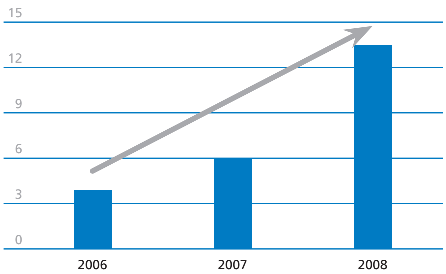
Operating results

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



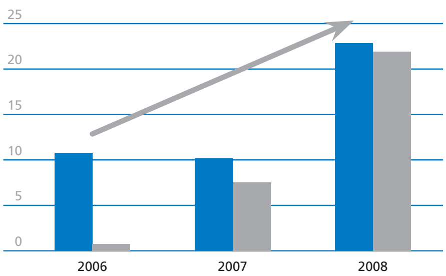
CAGR 2006 – 2008 : 35%

Revenue (R billion)

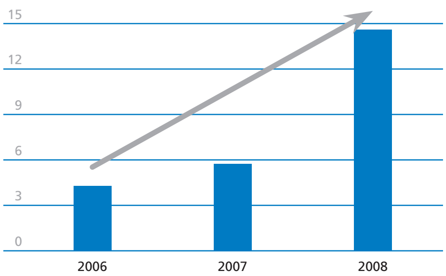


CAGR 2006 – 2008 : 51%

Operating profit (R billion)



Attributable earnings and dividend per share (Rand)



CAGR 2006 – 2008 : 50%

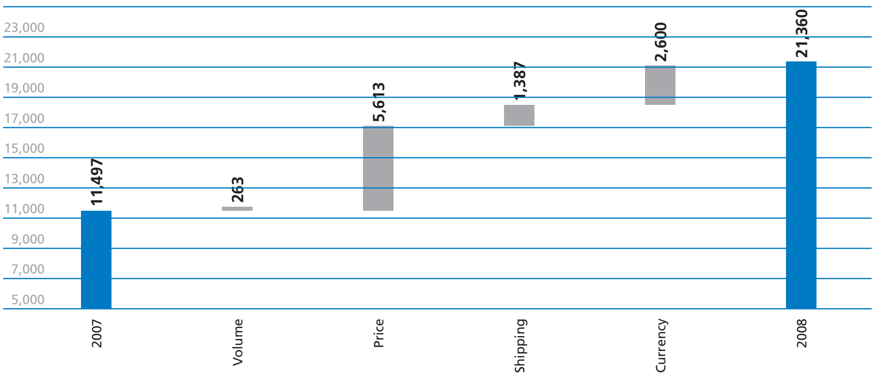
Cash from operations (R billion)

Rand million	**2008**	2007	% change	2006
Revenue	**21,360**	11,497	86	8,654
Operating expenditure *	**(7,847)**	(5,519)	42	(4,719)
Operating profit *	**13,513**	5,978	126	3,935
Operating margin (%) (EBIT)*	**63**	52	21	45
Headline earnings **	**7,276**	3,143	131	2,126
Cash from operations	**14,519**	5,805	150	4,277
Capital expenditure	**2,563**	2,119	21	1,718

* The financial results for 2006 have been adjusted for the once-off net surplus on the sale of non-iron ore assets of R1,571 million and share-based payment expense – SIOC Community Development SPV of (R153 million).
** The financial results for 2007 and 2006 have been restated for the effects of the change in accounting policy on adoption of the revised IAS 23 Borrowing costs.

Financial overview

The increase in iron ore prices during the year contributed a further R5.6 billion to revenue.



Revenue (R million)

Rand million	2008	2007	% change	2006
Cost of goods sold	**3,741**	3,338	12	3,094
Production costs	**5,053**	3,486	45	3,143
Inventory movements	**(289)**	(402)	(28)	(49)
Other	**(1,023)**	254	(503)	–
Expenditure – shipping services	**2,086**	887	135	479
Selling, rail and port costs	**1,976**	1,300	52	1,151
Impairment of property, plant and equipment	**50**	–	–	–
Sublease rent received	**(6)**	(6)	–	(5)
Operating expenditure	**7,847**	5,519	42	4,719

Operating expenditure

Revenue

Revenue generated from the sale of iron ore increased 81% from R10.4 billion to R18.9 billion and revenue from shipping services increased 128% from R1.1 billion to R2.5 billion.

The 86% increase in revenue over last year was principally as a result of:

- Increased export sales volumes added R263 million (24.9Mt in 2008 up 0.9Mt from 24.0Mt in 2007).
- The year-on-year weighted average price of iron ore from export sale volumes increased 64% from US$53.70 per tonne to US$88.31 per tonne (after taking into account small volumes of lower quality production sold at discounted price in the fourth quarter of 2008), contributing R5.6 billion.
- Revenue from shipping operations increased by R1.4 billion to R2.5 billion in 2008.
- 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.

Operating expenditure

Operating expenditure increased by 42% year-on-year from R5.5 billion to R7.8 billion.

The cost of goods sold increased by 12% from R3.3 billion to R3.7 billion in 2008. 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.

During the year an 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 cost of goods sold was tempered by net foreign exchange gains realised during 2008 of R1.0 billion included in other costs compared to R14 million realised in 2007. The foreign exchange gain realised during 2008 principally as a result of settlement of iron ore price increases and collection of export sales during the fourth quarter at a time when the Rand weakened significantly to the US Dollar.

Expenditure relating to our shipping services increased by R1.2 billion against an increase of R1.4 billion achieved in the revenue from these operations. The increase in the expenditure is due to an increase in average freight rates paid by the group from US$32.79/tonne in 2007 to US$36.67/tonne in 2008 and a 2.1Mt increase in shipping volumes from the previous year. The expenditure was further increased during the fourth quarter of 2008 by the write-off of freight contracts in respect of six uncompleted voyages where the group has offered commensurate terms to customers. Overall a profit of R327 million was made for the year, although the group recorded a net loss of R117 million in the second half of the year.

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.

Sishen Mine unit cost

Sishen Mine saw production increase 15% from 29.7Mt in 2007 to 34.0Mt. Total tonnes mined at Sishen Mine increased by 3% from 104.4Mt in 2007 to 107.6Mt. The yield of the DMS plant reduced from the 86% achieved during 2007 to 82.5% in 2008, requiring record 34.3Mt to be fed to the plant, a 3% increase year-on-year, in order to achieve the 28.4Mt of DMS plant production. The increased usage of run-of-mine material negatively impacted on the unit cost of the mine. The average yield achieved from the jig plant during 2008 was 47%. Inflationary pressures and unprecedented increases in excess of inflation of key mining inputs (such as diesel, ammonia and steel) resulted in a step increase in the cost of production during 2008. After taking into account the utilisation of WIP stockpiles during 2008 which were capitalised in 2007, Sishen Mine's unit cost from the DMS and jig plant increased by 32% to R105.44 per tonne compared to R79.90 per tonne in 2007.

Sishen Mine incurred some R251 million to produce 0.9Mt of additional products during 2008 to mitigate the shortfall in production from the jig plant, which on a once-off basis added some R5.33 per tonne to the total unit cost of the mine, on which an operating profit of R220 million was generated.

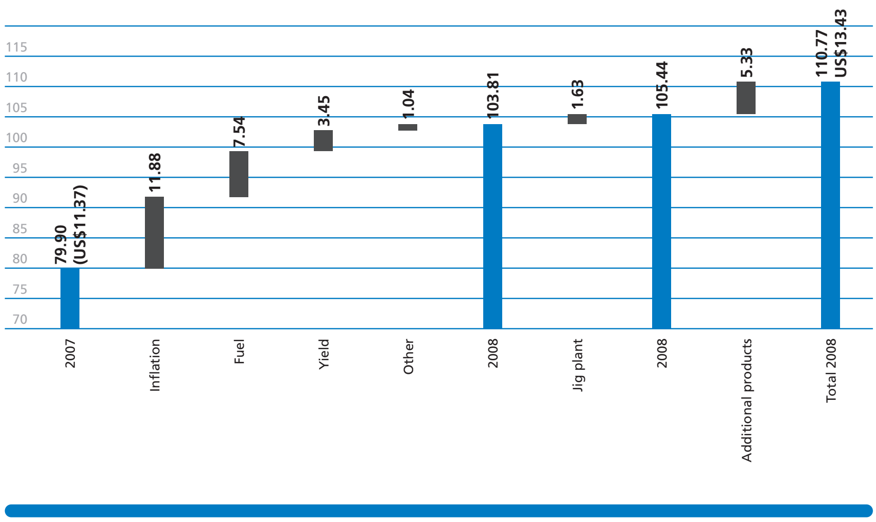
Operating profit

Although operating expenses remained under pressure, Kumba's operating margin increased from 52% to 63% in 2008. After excluding the operating profit from shipping operations, the core mining operating margin has increased from 56% in 2007 to 69% in 2008.

Capital expenditure

Kumba incurred capital expenditure of R2.6 billion in 2008 (R841 million was incurred to maintain operations and R1.7 billion to expand operations), R444 million more than the R2.1 billion spent in 2007. During 2008 R927 million was incurred on the jig plant and R702 million on the Sishen South project that was approved on 31 July 2008.

Aggregate capital expenditure on the jig plant to 31 December 2008 totalled R4.2 billion, with approximately R0.4 billion expected to be incurred in 2009. The Sishen South project is currently forecast to incur costs of approximately R2.3 billion in 2009 and R3.4 billion in 2010.



Sishen Mine unit cost (Rand per tonne)

Rand million	2008	2007	% change	2006
Cash generated by operations	**14,519**	5,805	150	4,277
Capital expenditure	**2,563**	2,119	21	1,462
Net increase/(decrease) in debt	**328**	(489)	(167)	(939)
Dividends paid	**4,870**	1,745	179	–
Dividends to Kumba shareholders	**3,794**	1,353	180	–
Dividends to minority shareholders	**1,076**	392	174	–

Cash flow

Kumba's net debt position at 31 December was as follows:

Rand million	2008	2007	2006
Interest-bearing borrowings			
– Long-term	**977**	1,040	2,840
– Short-term	**2,881**	2,490	1,179
Total	**3,858**	3,530	4,019
Cash and cash equivalents	**(3,810)**	(952)	(1,094)
Net debt	**48**	2,578	2,925
Total equity	**8,506**	3,295	1,055

Net debt

Cash flows

Cash flows of R14.5 billion were generated by operations, an increase of 150% on the R5.8 billion generated in 2007.

The cash generated by Kumba was used to pay interest of R401 million, taxation of R4.3 billion and dividends of R4.9 billion (R3.8 billion to shareholders of Kumba and R1.1 billion to minority shareholders of Sishen Iron Ore Company ('SIOC')) during the year. Bank facilities were used to fund R2.6 billion of capital expenditure. Certain interest-bearing borrowings were repaid with cash flows generated during the year and during the fourth quarter of 2008 Kumba drew down R1.0 billion of its new R5.4 billion term debt facility.

Net debt

Through strong cash flow generation, the net debt position of Kumba has reduced from R2.6 billion in 2007 to R48 million in 2008.

Management will continue with its stated policy 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. The new facility will mature in November 2013 and bears interest at a floating rate of three month Jibar plus 224 basis points. 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 short-term borrowings, is the R2.84 billion revolving facility which matures 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.

Shareholder returns

Although its share price declined from the levels achieved in 2007 in line with the collapse in the global equities market, Kumba continued to generate a return for its shareholders during the year through the payment of dividends.

Share price

2008 saw the mining index on the JSE decline some 30% as the global economy collapsed. The Kumba share price declined 43% to R162 per share at 31 December 2008 from R285 per share as at the same date in 2007.

Dividends

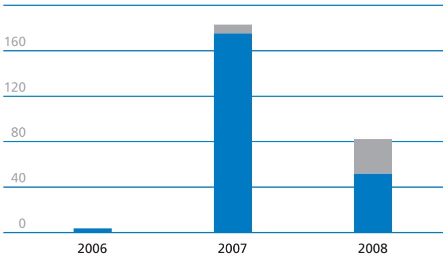
Attributable and headline earnings for the year were R22.80 and R23.02 per share respectively, on which a final dividend of R13.00 per share has been declared and an interim dividend of R8.00 per share was paid. This brings the total dividend for the year to R21.00 per share.

Kumba's policy is to pay a dividend to its shareholders twice a year (interim and final), with a goal of maintaining the cover of approximately 1 times earnings over the long-term.

Shareholder return

A shareholder who purchased a Kumba share on unbundling in November 2006 at R110 per share would have received R29.30 in dividends (including the 2008 final dividend of R13 per share) and earned R52 in capital appreciation until 31 December 2008, based on a closing price of R162 per share on this date.

In aggregate, shareholders would have achieved a compound annual growth rate ('CAGR') over the past three years of 32%.



CAGR 2006 – 2008 : 32%
Capital appreciation Dividend

Cumulative shareholder return (Rand)

Empowerment

As part of the unbundling, Kumba implemented various transactions in which 26% ownership in Sishen Iron Ore Company was transferred to Exxaro Resources (20%), SIOC Community Development SPV (3%) and Envision (3%).

In preparing the condensed consolidated financial report, SIOC Community Development SPV and Envision are considered special purpose entities and are consolidated for accounting purposes.

These entities will be consolidated while the funding structures remain (approximately three more years) based on historic earnings.

These parties, along with Kumba, participate in the dividend declared by Sishen Iron Ore Company. The following dividends were declared during the year:

Rand million	Total dividend 2008	Total dividend 2007
Dividend declared by SIOC	**9,040**	3,266
– Kumba	**6,690**	2,417
– Exxaro Resources	**1,808**	653
– SIOC Community Development SPV	**271**	98
– Envision	**271**	98

SIOC dividends

During 2008, R32 million was paid to employees of Sishen Iron Ore Company through the dividend received by Envision. In addition, R8 million was paid 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.

Key factors affecting future operating results

Export iron ore price

In 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 and shipping freight rates followed suit.

Price negotiations for the 2009/2010 iron ore year will be a key area of uncertainty in this volatile economic period. Should benchmark prices converge to current spot prices through settlement, export iron ore prices will be lower than those achieved for 2008.

Export iron ore sales volumes

Kumba's full-year 2008 export sales volumes were up 4% year-on-year, but export sales slowed considerably in the fourth quarter.

Most European steel mills implemented production cuts of 20-30% early in the fourth quarter, increasing to approximately 50% towards the end of the year. Japanese and Korean steel mills have also implemented production cuts, albeit later and smaller. With full iron ore stockpiles, European and Japanese customers delayed shipments and reduced volumes in late 2008. However, Chinese customers have maintained contractual volumes throughout 2008, despite the global slowdown hitting China as well.

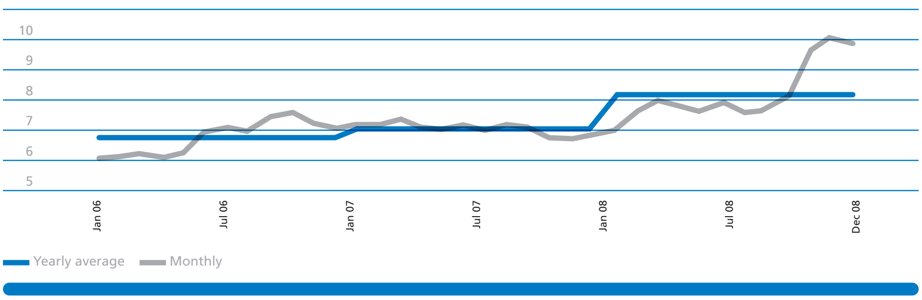
Starting late in 2008, Chinese customers have been given an opportunity to increase offtake of certain products (fines, coarse sinter and SEP lump), at a discount to long-term contract prices.

The first half of 2009 is likely to be very challenging for iron ore sales volumes.

Exchange rate

Kumba's revenue generated from the export of iron ore and shipping services, which represents some 93% of revenue generated, and a significant portion of Kumba's capital expenditure is affected by the Rand/US Dollar exchange rate. Therefore, the average exchange rate for the year has a significant effect on revenue and operating profit. The group maintains a fully covered exchange rate position in respect of imported capital equipment.

In 2009 the Rand/US Dollar exchange rate has been trading at around R10.00/US$1.00. This weakness in the Rand, if sustained, will have a positive impact on operating profit.



Rand/US Dollar exchange rate

Changes in accounting estimates

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.

Environmental rehabilitation and decommissioning

The provision for environmental rehabilitation and decommissioning recognised by Kumba is based on management's best estimate of the cost to be incurred. The actual liability for rehabilitation and decommissioning that may arise on closure of the mines can vary from our estimate. As a result, the liabilities we report can vary if our assessment of expenditures changes.

The provision for environmental rehabilitation and decommissioning has increased by R91 million due to a change in the estimated cost of closure of the Sishen and Thabazimbi Mines.

Change in accounting policy

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 years 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 years ended 31 December 2008 and 2007 respectively. The effect on equity is disclosed in the table on the right.

Headline earnings for the year was R23.02 per share on which a dividend for 2008 of R21.00 per share has been declared.

Rand million	**2008**	2007
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

Changes in accounting policy

Reserves and resources


514-519
519

Review of Kumba's mineral resources and ore reserves

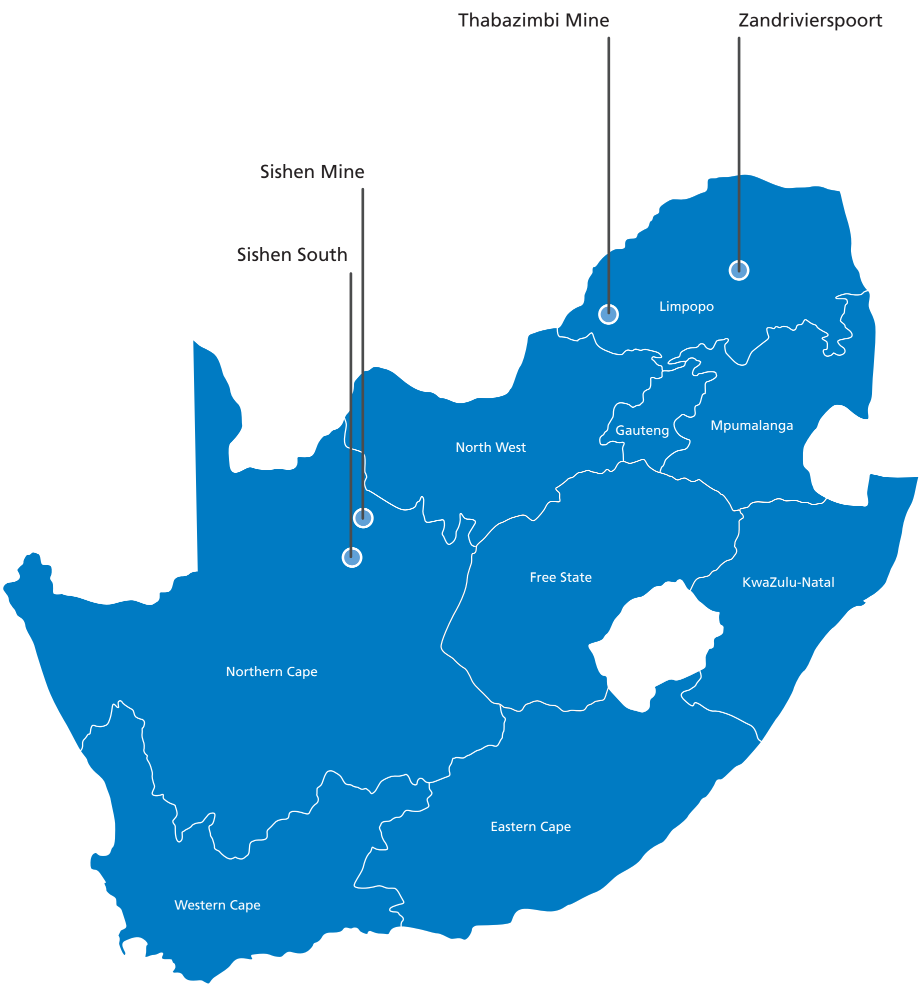


Figure 1: Locality map of Kumba's operations and projects

Mines and projects

Sishen Mine

The bulk of Kumba's iron ore production comes from Sishen Mine, located in the Northern Cape Province near the town of Kathu *(Figure 1)*. High-grade hematite iron ore is found in the upper parts of a Lake Superior-type, banded iron formation succession of the Griqualand West Supergroup; the Transvaal Supergroup as it is known where it occurs in the Northern Cape. Due to the long geological time interval between the deposition of the oldest rocks of the Griqualand West Supergroup, the Campbellrand Dolomite, and the youngest rocks in the area, the Kalahari Group sand, a number of uplift and erosion cycles and deformational events are recorded in the rock record.

In the vicinity of Sishen Mine, the iron ore deposits are located on the western flank of the Maremane Anticline, which strikes north-south and dips shallowly (~11°) to the west. Local structures in the mine area are, however, very complicated and the interplay between the various tectonic events and resulting geological structures were critical to ore formation and preservation. In general, the high-grade laminated and massive ore is preserved in synclinal and pseudo-graben structures, which are the result of multiple deformation events. Medium- and lower-grade iron ore zones, comprising conglomeratic and brecciated ore, are preserved within deep palaeosinkhole structures on the southern portions of the deposit, where these structures are the result of karstification of the underlying dolomites during periods of uplift and erosion.

All mining at Sishen Mine is done by open cast methods. The current mining process entails topsoil removal and stockpiling, followed by drilling and then blasting of waste lithologies and ore. Overburden is backfilled in the pit or hauled to waste rock dumps on the edges of the pit. The iron ore is loaded according to blending (grade) requirements and transported to the beneficiation plants, where it is crushed, screened into size fractions and beneficiated. Each size fraction is beneficiated using a dense medium or jigging process before stockpiling on the various product beds. Plant slimes are pumped to evaporation dams and the plant discard material is stacked on a dedicated waste dump. Seven iron ore products (conforming to different chemical and physical specifications) are produced from Sishen ore. The ores are reclaimed from the product beds and loaded into trains for transport to local steel mills and Saldanha Bay for export to international markets.

Sishen Mine currently produces 28.4 million tonnes (Mt) of high-grade (>65% Fe) product per annum from the dense medium separation (DMS) plant and is ramping up to the full production of approximately 13Mt per annum at the end of 2009 from the eight modular jig plant (SEP Plant). The jig plant employs beneficiation technology (jigging) capable of beneficiating medium- and lower-grade material to produce a 64% Fe saleable product known as SEP ore.

Thabazimbi Mine

The remaining iron ore production comes from Thabazimbi Mine, which is located in the Limpopo Province close to the town of Thabazimbi *(Figure 1)*.

The operation extracts iron ore mainly occurring as basal units within the Penge Formation, a banded iron formation of the Transvaal Supergroup. It locally features as a series of east-west striking, south-dipping (45°) hills, which are the remnants of the ore-bearing strata that have been triplicated by thrust faulting believed to be the result of the intrusion of the Bushveld Igneous Complex.

The mine beneficiates run-of-mine material in a DMS plant typically located close to the mining areas. Where active mining pits are far from the plant, ore is trucked to crushers located close to the active pits. The crushed material is then transported via conveyor belt to a stockpile that feeds the plant. Fine ore from the Kwaggashoek East pit, one of the current three active pits at Thabazimbi Mine, is screened and does not require further beneficiation before stockpiling on the fine product stockpiles.

Thabazimbi Mine's product is sold exclusively to ArcelorMittal South Africa (AMSA). The mine is a captive business that operates on a cost plus 3% management fee basis. The product is transported mostly by rail to AMSA's steel works at Vanderbijlpark and Newcastle, although limited amounts of lumpy ore were transported by road to Vanderbijlpark during 2008 due to Transnet related logistical constraints.

Sishen South Project

The mining right area is located in the Northern Cape Province near Postmasburg *(Figure 1)* and is situated on the southern tip of the narrow north-south trending belt of iron-bearing lithologies of the Griqualand West Supergroup that host the Sishen Mine deposit towards the north.

Similarly to Sishen Mine, iron ore at Sishen South is preserved in the chemical and clastic sediments of the Proterozoic Transvaal Supergroup, which define the western margin of the Kaapvaal Craton in the Northern Cape Province. The stratigraphy has been deformed by thrusting from the west and has undergone extensive karstification. The thrusting has produced a series of open, north-south plunging anticlines, synclines and grabens. Karstification was responsible for the development of deep sinkholes and the iron ore at Sishen South has been preserved from erosion within these geological structures.

The Sishen South has been designed as a direct shipping ore operation, where conventional open pit drilling and blasting, shovel loading and truck hauling will be used to mine the ore from three different pits.

A combination of run-of-mine buffer- and product- stockpiles will be used for blending to ensure that the product complies with the required specifications. Product size will be controlled via a crushing and screening plant for all buffer stockpile and run-of-mine material.

Pre-stripping at Sishen South is due to commence in July 2009, with the hot-commissioning for the crushing and screening facility scheduled for February 2011 and first production in 2012. Annual production of 9Mt of 64% Fe iron ore product is planned and this will be transported on a dedicated rail link to join the existing Saldanha export system down to the port of Saldanha Bay. The product will be blended with the Sishen SEP ore at Saldanha Bay and marketed to several of Kumba's international clients.

Zandrivierspoort Project

The Zandrivierspoort prospecting right is located approximately 25km northeast of Polokwane in the Limpopo Province of the Republic of South Africa *(Figure 1)*.

Zandrivierspoort is a low-grade magnetite deposit in the Palaeoproterozoic Rhenosterkoppies Greenstone Belt, or Rhenosterkoppies Fragment, which occurs northwest of the main, northeast-trending Pietersburg Greenstone Belt. The lower-grade (~35% Fe) ore comprises Archaean-aged metamorphosed banded iron formation that has been exposed to at least three deformational events, which resulted in recumbent isoclinal folding. These deformational events controlled the ore formation at Zandrivierspoort as they deformed the total ore zone into a thick (>100m) sequence of magnetite-quartzite that can be separated into several practicably mineable horizons of ~10m.

The project is currently in the prefeasibility study phase and several options in terms of the product specification, product types and annual product volumes are being investigated. It is assumed that a Zandrivierspoort product could support AMSA's domestic demand for raw material input to their steel works. Investigations have shown that Zandrivierspoort magnetite concentrate could comprise up to 5% of a sinter mix, which yields improved production rates in the iron ore sintering process. However, this product would only support a limited market and alternatives of green micro-pellets or baked mini-pellets, both as a sinter ore replacement, or conventional pellets (as a blast furnace feed) are being investigated to increase the market size for Zandrivierspoort.

General statement on mineral resource and ore reserve estimation and reporting

The following summary of the ore reserves and mineral resources attributed to Kumba Iron Ore's current mining operations and growth projects are reported, in *Table 1* and *Table 2*, as those remaining at 31 December 2008. The figures reported reflect 100% of the mineral resources and ore reserves irrespective of Kumba's attributable ownership, which is detailed in the relevant tables.

Compared to the 2007 report, Kumba has incorporated three significant changes to its reporting protocol in 2008. Firstly, mineral resource estimates are reported in addition to ore reserves and secondly, in accordance with the SAMREC Code of 2007, modifying factors used to convert mineral resources to ore reserves are declared where relevant. Note, however, that Kumba believes the disclosure of forward-looking iron ore prices, associated exchange rates and other financial parameters may disadvantage its competitiveness in the iron ore industry; these modifying factors thus remain undisclosed. The third change relates to the reporting of inferred mineral resources, where in order to more transparently explain movements between 2007 and 2008, two categories of inferred mineral resources are reported in 2008: Inferred mineral resources outside life-of-mine plans and inferred mineral resources considered for life-of-mine scheduling.

Mineral resources are reported according to the latest available geological models, which have been updated within three to six months prior to the end of the year of reporting. Ore reserves for the mining operations have been estimated within two months of this statement, while for projects, updates are performed as required by business feasibility investigations or when primary business case assumptions change.

All mineral resource and ore reserve tonnages are quoted in metric tonnes. Mineral resource grades reported are the average grade above cut-off and are reported *in situ* using operation-specific cut-off grades. The ore reserve grades reported represent the weighted average grade of the 'plant feed' or 'run-of-mine' material and take into account all applicable modifying factors. The average grade and tonnage estimates of 'saleable product' are also reported to show that beneficiation losses have been taken into account in the figures reported.

Kumba uses the concept of 'optimistic pit shells' to define the limits for 'reasonable and realistic prospects of eventual economic extraction', which are necessary for the declaration of mineral resources according to the SAMREC Code of 2007. Optimistic pits shells were established by doubling the April 2007 long-term revenue factors used at that time to estimate optimised shells from which practical pit layouts containing the ore reserves were derived (all other parameters for pit shell optimisation remained unchanged). Thus, Kumba's 2008 mineral resources are not an inventory of all mineral occurrences drilled or sampled regardless of cut-off grade, likely dimensions, location or continuity. Instead they are a realistic record of those, which under assumed and justifiable technical and economic conditions, may be economically extractable in future.

The mineral resource and ore reserve statement has been compiled so that it complies with international reporting standards and conventions as well as the regulations set by the JSE Limited. It conforms to our mineral resource and ore reserve reporting policy (endorsed by Kumba's board of directors), which recognises the SAMREC Code of 2007 as the minimum reporting standard. Note, ore reserves in the context of this report have the same meaning as 'mineral reserves', as defined by the SAMREC Code.

In accordance with the SAMREC Code, Kumba derives the ore reserve estimates reported for each operation or project by applying mining, metallurgical, economic, marketing, legal, environmental, social and governmental 'modifying factors' to their reported mineral resources. Initially, grades and tonnages estimated from the geological block models are discounted by the application of 'modifying factors' such as dilution and mining losses in order to develop a so-called mining model, which forms the base from which the ore reserves are estimated through life-of-mine scheduling. Kumba's operations and projects consider the expected long-term revenue versus the time-inflated operation and production costs associated with mining and beneficiation as well as environmental and social costs, in determining whether a mineral resource could be economically extractable and converted to an ore reserve or not.

Competent persons have estimated the mineral resources and ore reserves reported here. All 'competent persons' have been duly appointed and made aware of their responsibility towards unbiased mineral resource and/or ore reserve estimation on an operational or project level according to the Kumba reporting policy. All competent persons have sufficient relevant experience in the style of mineralisation, type of deposit and mining method as well as in the activity for which they have taken responsibility to qualify as a 'competent person', as defined by the 2007 SAMREC Code. The mineral resource and ore reserve estimates have been signed off by the relevant competent persons, who consent to the inclusion of the information in this report in the form and context in which it appears. A list of the competent persons responsible for Kumba's mineral resources and ore reserves is available from the company secretary upon written request.

Kumba applies a rigorous three-year rolling internal and external audit process to its mineral resource and ore reserve estimates. As part of the external independent review process conducted at Kumba's operations and projects since 2005, Golder Associates Africa (Pty) Limited audited the existing Sishen Mine mineral resource and ore reserve estimation and reporting processes in 2008. Financial provision has been made for a similar detailed independent external review of the Sishen South estimation and reporting processes in 2009 and the Zandrivierspoort Project will be reviewed once the prefeasibility study has been completed. Thabazimbi Mine was similarly audited in 2007.

The estimates reported here have been reviewed and are endorsed by V Lickfold, the person within Kumba designated to take corporate responsibility for mineral resources and ore reserves. The chief executive officer of Kumba, C Griffith, also endorses the estimates presented in this report.

V Lickfold (Pr Sci Nat 400099/94)
Head of Geosciences
13 February 2009

C Griffith
CEO, Kumba Iron Ore
13 February 2009

Security of tenure

In South Africa, the Minerals and Petroleum Resources Development Act, No 28 of 2002 (MPRDA) was implemented on 1 May 2004, and effectively transferred custodianship of the previously privately held mineral rights to the State. Mining companies were given up to two years to apply for prospecting permit conversions and five years to apply for mining licence conversions for existing operations. A prospecting right is a new order right that is valid for up to five years, with the possibility of a further extension of three years, which can be obtained either by the conversion of an existing old order prospecting permit or through a new application. A mining right is a new order right valid for up to 30 years and is obtained either by the conversion of an old order mining licence, as a new order right pursuant to the exercising of the exclusive right of the holder of a new order prospecting right or through a new mining right application.

Sishen Iron Ore Company (SIOC), the holding company of old order and new/converted prospecting rights, achieved its 26% black economic empowerment participation in accordance with the MPRDA when the empowerment deal brokered between Kumba Resources and Eyesizwe was finalised in November 2006. Kumba fully supports the objectives of the MPRDA and SIOC submitted applications to convert its old order mining licences and prospecting permits to new order rights in 2005. New applications for one mining right (Sishen South) and four prospecting rights (properties in the vicinity of Sishen Mine and Thabazimbi Mine) were also submitted since 2005.

SIOC's conversion applications for Sishen and Thabazimbi Mines were audited by independent external consultants prior to submission and declared compliant with the requirements of the act and other relevant regulations. The applications were accepted by the Department: Minerals and Energy (DME) and granted during the course of 2008. These two rights, currently valid until 30 April 2009, will be executed and registered in early 2009. The application for a new order mining rights for Sishen South was accepted in 2005 and granted by the DME in 2008. The right has been executed and implementation of the project has commenced in accordance with the project timeline to produce first saleable product in June 2011. The mining rights for Sishen, Thabazimbi and Sishen South will be valid for 30 years once they are registered.

Of the four applications for new order prospecting rights in place of unused old order rights, three new order prospecting rights near Sishen Mine have been granted for five years; the fourth near Assen is pending.

A new order prospecting right was granted for Zandrivierspoort in November 2006 for five years. The Zandrivierspoort right was issued to SIOC, 37% of which is attributable to Kumba because of a joint venture agreement with AMSA.

The new prospecting right application in the Sishen Mine area was granted and executed in November 2007. Applications for three new order prospecting rights in the Thabazimbi Mine area have been accepted by the DME but the status of these applications remains pending.

Closure was obtained for three old order prospecting rights in the vicinity of Thabazimbi Mine.

In accordance with the board decision to divest of Kromdraai, it was Kumba's intention to cede the old order prospecting right to Vergenoeg Exploration Company (VEC), and an agreement between the parties was thus concluded. The old order right has since lapsed without VEC being successful in their new order application for the right, rendering it necessary for Kumba to embark on closure procedures, which are currently in progress.

Ore reserves and mineral resources

Commodity		Operation/project	% attributable to Kumba	Reserve category	2008 Ore reserves Tonnes (Mt)	Grade (% Fe) Average	Grade (% Fe) Cut-off
Iron ore	Mining operations	Sishen Mine[1] – DMS and Jig plant	58.2	Proved Probable	709.2 247.7	59.7 59.3	40 40
				Subtotal	**956.9**	**59.6**	
		Thabazimbi Mine[2] – Within pit layouts	74.0	Proved Probable	4.1 0.8	64.5 64.9	55 55
				Subtotal	**4.9**	**64.6**	
		Kumba – Mining operations		Proved Probable	713.4 248.5	59.7 59.3	
				Total	**961.9**	**59.6**	
	Advanced projects	Sishen South[3] – Within pit layouts	74.0	Proved Probable	123.1 91.0	64.2 63.9	51 51
				Subtotal	**214.1**	**64.1**	
		Kumba – Advanced projects	74.0	Proved Probable	123.1 91.0	64.2 63.9	51 51
				Total	**214.1**	**64.1**	
	Total	Kumba – Total		Proved Probable	836.5 339.5	60.3 60.6	
				Total	**1,175.9**	**60.4**	

Table 1: Kumba's ore reserves for 2008 and 2007

The tonnages are quoted in metric tonnes and million tonnes is abbreviated as Mt.

Rounding of figures may cause computational discrepancies.

Ore reserve figures reported at 100% irrespective of percentage attributable to Kumba.

Black font denotes % change >10%

Grey font denotes % change ≤ 10%

1. New information incorporated into the geological models (-15.2Mt), a reconciliation between predicted versus actual 31/12/2007 pit boundaries (-4.9Mt), an increase in the material remaining unutilised after scheduling (-14.9Mt) and an increase in the buffer stockpile and floor stock in the mine (+4.6Mt), together with annual production (-45.2Mt) account for the change in ore reserves.

2007				2008		2007		
Ore reserves				Saleable product				
Tonnes (Mt)	Grade (% Fe) Average	Grade (% Fe) Cut-off	% ore reserve change	Tonnes (Mt)	Grade (% Fe) Average	Tonnes (Mt)	Grade (% Fe) Average	% saleable product change
805.3	59.9	Variable	(12)	535.7	65.0	597.9	65.2	(10)
227.2	60.0	Variable	9	187.1	65.1	174.1	65.3	7
1,032.5	**59.6**	**Variable**	**(7)**	**722.8**	**65.0**	**772.0**	**65.2**	**(6)**
7.8	62.9	55	(47)	3.9	64.9	6.6	63.5	(41)
1.5	62.7	55	(46)	0.8	65.1	1.2	63.1	(37)
9.3	**62.9**	**55**	**(47)**	**4.7**	**65.0**	**7.9**	**63.4**	**(41)**
813.1	59.6		(12)	539.6	65.0	604.5	65.2	(11)
228.7	60.1		9	187.8	65.1	175.4	65.2	7
1,041.8	**59.7**		**(8)**	**727.5**	**65.0**	**779.8**	**65.2**	**(7)**
97.7	64.7	60	26	122.9	64.1	97.5	64.7	26
78.2	63.6	60	16	90.8	63.9	78.0	63.6	16
175.9	**64.2**	**60**	**22**	**213.6**	**64.0**	**175.5**	**64.2**	**22**
97.7	64.7	60	26	122.9	64.1	97.5	64.7	26
78.2	63.6	60	16	90.8	63.9	78.0	63.6	16
175.9	**64.2**	**60**	**22**	**213.6**	**64.0**	**175.5**	**64.2**	**22**
910.8	60.1		(8)	662.5	64.9	702.0	65.1	(6)
306.9	61.0		11	278.6	64.7	253.4	64.7	10
1,217.7	**60.3**		**(3)**	**941.1**	**64.8**	**955.3**	**65.0**	**(1)**

2. Mining production (-3.5Mt), a reclassification of ore reserves to mineral resources (-0.2Mt) as a result of the closure of one of the four pits (Donkerpoort West) due to geotechnical risk and a combination of geological model adjustments based on new information and pit layout changes (-0.7Mt) account for the decrease in ore reserves.

3. The increase in ore reserves is the result of an increase in the forward-looking free-on-rail iron ore price (+24.2Mt), a revision of the geological models to incorporate the new structural model for the deposits (+16.2Mt) and an increase in the run-of-mine material remaining unutilised after scheduling in the life-of-mine plan (-2.2Mt).

Commodity		Operation/project	% attributable to Kumba	Reserve category	2008 Tonnes (Mt)	2008 Grade (% Fe) Average	2008 Grade (% Fe) Cut-off
Iron ore	Mining operations	Sishen Mine – mineral resources within practical pit layouts	58.2	Measured	44.8	59.5	40
				Indicated	14.5	57.5	40
				Inferred (outside LoM)	3.5	54.3	40
				Inferred (considered for LoM)	4.1	61.8	40
				Subtotal	**67.0**	**59.0**	**40**
		Sishen Mine – mineral resources outside pits	58.2	Measured	713.9	54.6	40
				Indicated	701.0	57.4	40
				Inferred (outside LoM)	146.6	59.4	40
				Subtotal	**1,561.5**	**56.3**	**40**
		Sishen Mine[1] – total mineral resources	58.2	Measured	758.7	54.9	40
				Indicated	715.5	57.4	40
				Inferred (outside LoM)	150.2	59.2	40
				Inferred (considered for LoM)	4.1	61.8	40
				Total	**1,628.5**	**56.4**	**40**
		Thabazimbi Mine – mineral resources within practical pit layouts	74.0	Measured	0.7	61.0	55
				Indicated	0.0	61.8	55
				Inferred (outside LoM)	0.0	58.4	55
				Inferred (considered for LoM)	0.3	61.8	55
				Subtotal	**1.0**	**61.2**	**55**
		Thabazimbi Mine – mineral resources outside pits	74.0	Measured	18.0	62.4	55
				Indicated	4.8	63.4	55
				Inferred (outside LoM)	2.6	63.5	55
				Subtotal	**25.5**	**62.7**	**55**
		Thabazimbi Mine[2] – total mineral resources	74.0	Measured	18.7	62.3	55
				Indicated	4.9	63.	55
				Inferred (outside LoM)	2.6	63.4	55
				Inferred (considered for LoM)	0.3	61.8	55
				Total	**26.5**	**62.8**	**55**
		Kumba – total mineral resources		Measured	777.4	55.1	
				Indicated	720.3	57.5	
				Inferred (outside LoM)	152.8	59.3	
				Inferred (considered for LoM)	4.4	61.8	
				Grand total	**1,654.9**	**56.5**	

Table 2: Kumba's mineral resources in addition to ore reserves for 2008 and 2007

2007			
Tonnes (Mt)	Grade (% Fe) Average	Grade (% Fe) Cut-off	% change
31.2	60.7	40	44
23.2	59.7	40	(38)
5.1	56.0	40	(30)
4.9	62.4	40	(15)
64.4	**60.1**	**40**	**4**
617.8	55.2	40	16
588.5	58.6	40	19
109.7	61.0	40	34
1,316.0	**57.2**	**40**	**19**
649.1	55.4	40	17
611.7	58.7	40	17
114.7	60.8	40	31
4.9	62.4	40	(15)
1,380.3	**57.3**	**40**	**18**
0.5	62.3	55	48
0.1	61.6	55	(46)
0.0	61.3	55	(55)
0.3	61.6	55	(21)
0.9	**62.0**	**55**	**12**
18.1	62.4	55	0
4.9	63.4	55	(2)
2.7	63.4	55	(3)
25.7	**62.7**	**55**	**(1)**
18.6	62.4	55	1
5.0	63.4	55	(2)
2.7	63.4	55	(4)
0.3	61.6	55	(21)
26.6	**62.6**	**55**	**0**
667.6	56.6		16
616.7	58.7		17
117.4	60.8		30
5.2	62.4		(15)
1,406.9	**57.4**		**18**

The tonnages are quoted in metric tonnes and million tonnes is abbreviated as Mt.

Rounding of figures may cause computational discrepancies.

Mineral resource figures reported at 100% irrespective of percentage attributable to Kumba.

Black font denotes % change > 10%

Grey font denotes % change ≤ 10%

1. In-fill drilling and the subsequent adjustment of the geological models is the main contributor to this net increase in mineral resources.
2. Although not evident in the figures, a 0.2Mt increase in the mineral resources is a reclassification from ore reserves due to the closure of the Donkerpoort West pit late in 2008.

Commodity		Operation/project	% attributable to Kumba	Reserve category	2008 Tonnes (Mt)	2008 Grade (% Fe) Average	2008 Grade (% Fe) Cut-off
Iron ore	Advanced projects	Sishen South – mineral resources within practical pit layouts	74.0	Measured Indicated Inferred (outside LoM) Inferred (considered for LoM)	0.9 0.8 0.3 35.4	61.1 61.6 56.1 65.5	50 50 50 50
				Subtotal	**37.4**	**65.3**	**50**
		Sishen South – mineral resources outside pits	74.0	Measured Indicated Inferred (outside LoM)	48.6 20.0 47.1	65.1 65.0 62.5	50 50 50
				Subtotal	**115.7**	**64.0**	**50**
		Sishen South[3] – total mineral resources	74.0	Measured Indicated Inferred (outside LoM) Inferred (considered for LoM)	49.5 20.8 47.4 35.4	65.0 64.9 62.5 65.5	50 50 50 50
				Total	**153.2**	**64.3**	**50**
		Kumba – total mineral resources	74.0	Measured Indicated Inferred (outside LoM) Inferred (considered for LoM)	49.5 20.8 47.4 35.4	65.0 64.9 62.5 65.5	50 50 50 50
				Grand total	**153.2**	**64.3**	**50**
	Projects	Zandrivierspoort[4] – mineral resources outside pits	37.0	Measured Indicated Inferred (outside LoM)	0.0 42.5 379.3	0.0 34.8 35.1	30 30 30
				Total	**421.9**	**35.1**	**30**
		Kumba – total mineral resources	37.0	Measured Indicated Inferred (outside LoM)	0.0 42.5 379.9	0.0 34.8 35.1	30 30 30
				Grand total	**421.9**	**35.1**	**30**
		Kumba – total mineral resources		Measured Indicated Inferred (outside LoM) Inferred (considered for LoM)	826.9 783.7 579.5 39.8	55.7 56.4 43.7 65.1	
				Grand total	**2,230.0**	**53.0**	

Table 2: Kumba's mineral resources in addition to ore reserves for 2008 and 2007 (continued)

2007			
Tonnes (Mt)	Grade (% Fe) Average	Grade (% Fe) Cut-off	% change
0.0	0.0		100
0.0	0.0		100
0.0	0.0		100
0.0	0.0		100
0.0	**0.0**		**100**
31.3	65.6	50	56
55.6	64.3	50	(64)
10.1	63.4	50	100
96.9	**64.6**	**50**	**19**
31.3	65.6	50	58
55.6	64.3	50	(64)
10.1	63.4	50	100
0.0	0.0	50	100
96.9	**64.6**	**50**	**58**
31.3	65.6	50	56
55.6	64.3	50	(63)
10.1	63.4	50	100
0.0	0.0	50	100
96.9	**64.6**	**50**	**58**
0.0	0.0	Variable	0
447.0	34.9	Variable	(90)
0.0	0.0	Variable	100
447.0	**34.9**	**Variable**	**(6)**
0.0	0.0	Variable	0
447.0	34.9	Variable	(90)
0.0	0.0	Variable	100
447.0	**34.9**	**Variable**	**(6)**
698.9	56.1		18
1,119.3	49.5		(30)
127.5	61.0		100
5.2	62.4		100
1,950.9	**52.6**		**14**

The tonnages are quoted in metric tonnes and million tonnes is abbreviated as Mt.

Rounding of figures may cause computational discrepancies.

Mineral resources figures reported at 100% irrespective of percentage attributable to Kumba.

Black font denotes % change > 10%

Grey font denotes % change ≤ 10%

3. A combination of additional drilling information, increased optimistic pit layouts and revised classification procedures account for the change in mineral resources.

4. Revised geological models accommodating the new structural model for the deposit and improved reclassification procedures account for the mineral resource changes.

Comment

Kumba has high-quality mineral resources and ore reserves at Sishen Mine, Thabazimbi Mine and the Sishen South project.

The reporting of mineral resources in addition to ore reserves in 2008 instead of "inclusive of" ore reserves as before, resulted in a significant "apparent" decrease in reported mineral resources. The mineral resource (in addition to ore reserve) portfolio is, however, still remarkably well-defined if the proportions of measured and indicated to inferred mineral resources are considered *(Figure 2)*.

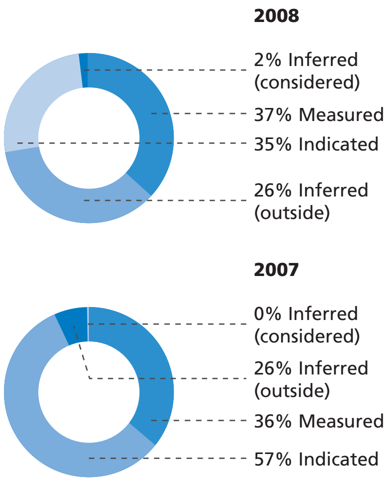


Figure 2: Kumba's mineral resource portfolio for 2008 and 2007

Kumba's total mineral resource base, reported in addition to ore reserves, showed a 14.3% or 279Mt net increase from 2007 to 2008. In more detail, this involves an increase of 322Mt:

- **Sishen Mine (+260Mt)**
  Mostly the result of incorporating new information into the geological models.
- **Sishen South (+62Mt)**
  Revising the optimistic shells to adopt an upward-adjusted forward-looking free-on-rail iron ore price enveloped 36Mt more mineral resources as eventually economically extractable.

  A further 26Mt increase in mineral resources reported in addition to ore reserves in 2008 occurred due to mineral resources not included in the life-of-mine plan but within the practical pit layout. These were not reported in 2007 as this ore reserve report was based on 2006 geological models.
- **Thabazimbi Mine (+0.2Mt)**
  A minor increase in the mineral resources at Thabazimbi Mine is the result of a reclassification from ore reserves to mineral resources due to the current geotechnical risk associated with mining, which resulted in the Donkerpoort West pit closure in late 2008.

The increase is off-set by a decrease of 43Mt, which is mainly ascribed to solid model updates of Sishen South and Zandrivierspoort that accommodate the new structural models of the project areas.

What cannot be derived from *Table 2* is that there were changes to the overall mineral resource classification process for Sishen South. The 2007 approach of classification, which was purely based on borehole spacing, was replaced in 2008 by a two-stage process. Initially site-specific geostatistical parameters, which describe how well the existing sample spacing caters for the established variability and continuity, are used to derive a preliminary confidence in geological characteristics such as grade, specific gravity, etc. This preliminary confidence is then refined (downgrading only) by considering the structural and dimensional complexity of the ore body geology in relation to the host rock using quantitative parameters.

The geological model for Zandrivierspoort was completely revised in 2008 to accommodate not only the incorporation of the new structural model for the deposit, but also an update of the geostatistical parameters used for estimation and a revision in the classification process (similar to the Sishen South process described above).

Despite the change in tonnage and grade between previous estimates and those of 2008 not being materially different, the change in mineral resource category, from indicated to inferred, was significant, and accounts for the majority of the change shown in the proportions of indicated and inferred mineral resources in *Figure 2*. The changes to Kumba's classification procedures are the result of a continued effort to refine the confidence assigned to its mineral resources.

The proportion of proved to probable ore reserves for 2008 compared to that for 2007 is shown in *Figure 3*.

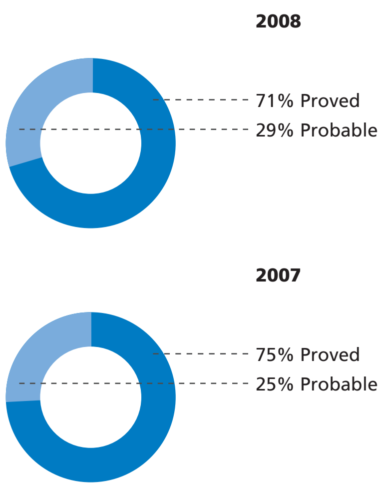


Figure 3: Kumba's ore reserve portfolio for 2008 and 2007

Kumba's ore reserves, reported as iron ore scheduled as run-of-mine in the respective life-of-mine plans at Sishen, Thabazimbi and Sishen South, showed a net decrease of 3%, or 41.7Mt in 2008. This is mainly due to depletion resulting from mining activities at Sishen and Thabazimbi Mines. In more detail:

- **Sishen Mine (-75.6Mt)**
  Annual depletion of 45.2Mt. Besides depletion, there are three main reasons for this decrease. Firstly, although the incorporation of in-fill drilling information accounted for an increase in the mineral resources in addition to ore reserves, it resulted in a decrease of 15.2Mt ore reserves within the practical pit layouts at Sishen Mine. Secondly, a reduction of 4.9Mt was made to account for the difference between predicted and actual pit boundaries as at 31 December 2007.
  The final decrease of 10.3Mt can mainly be assigned to 14.9Mt of material remaining unutilised after scheduling at Sishen Mine and a net increase in buffer stockpile and floor stock of 4.6Mt.
- **Sishen South (-2.2Mt)**
  Material remaining unutilised after scheduling in the life-of-mine plan.
- **Thabazimbi Mine (-4.9Mt)**
  Annual depletion of 3.5Mt and a further 1.4Mt decrease the result of a combination of new information adjustments made to geological models and the conversion of ore reserves to mineral resources as a result of pit closure based on geotechnical risk.

The decrease is off-set by an increase of 41.0Mt:

- **Sishen South (+40.4Mt)**
  The increase in the forward-looking free-on-rail iron ore price that accounted for increases in mineral resource led to a 24.2Mt increase in ore reserves at Sishen South. A further increase of 16.2Mt ore reserves at Sishen South is the result of the incorporation of the structural model for the deposits.
- **Thabazimbi Mine (+0.6Mt)**
  Revision of the Buffelshoek West mining pit layout encompassing 0.6Mt more ore reserves.

Kumba has high-quality mineral resources and ore reserves at Sishen Mine, considered a world-class operation. It has furthermore replaced its dwindling mineral resources and ore reserves at Thabazimbi Mine with the opening of the Sishen South Project, which should produce its first ore in 2012. By employing sound mineral resource management practices at its mining operations and exploration projects, Kumba Iron Ore can ensure optimal resource utilisation from preliminary exploration through to the delivery of the final product to its clients.

Corporate governance

Corporate governance

Kumba is committed to the highest standards of corporate governance.

Statement of compliance

Kumba is committed to the highest standards of corporate governance. In our 2007 statement of compliance, we reported that the company had complied fully with the provisions of the Companies Act of 1973 and materially with the Code of Corporate Practices and Conduct ("the code") recommended by the King II report on corporate governance. The compliance standards have been maintained in 2008. The one area of non-compliance with the code which was also disclosed in the 2007 report was the independence of the chairman of the board. Lazarus Zim was previously chief executive officer of Anglo American South Africa. He resigned from that role on 30 April 2006. The board is of the view that Mr Zim will become an independent director in terms of the code during the 2009 year as the recommended period of three years will have passed. The board is satisfied that he acted independently in his role as chairman of the Kumba board in 2008.

Changes to the board during 2008

The following changes were made to the Kumba board in 2008. Chris Griffith was appointed as chief executive officer and member of the board with effect from 1 July 2008 following the secondment of Ras Myburgh to Eskom. Peter Matlare stepped down from his role as chairman of the human resources, remuneration and nominations committee with effect from 3 November 2008. He remains a member of the committee. Allen Morgan was appointed as chairman of the committee in his stead. Zarina Bassa was appointed as a non-executive director and chairman of the audit and risk committee on 14 December 2008. Dolly Mokgatle was acting chairman of the committee in 2008.

Role of the board

The board of directors is accountable to shareholders for the performance of the company. Its role includes:

- the establishment, review and monitoring of strategic objectives;
- approval of major acquisitions, disposals and capital expenditure; and
- oversight of the group's systems of internal control, governance and risk management.

While all directors have equal responsibility for managing the company's affairs, it is the role of the chief executive and executive committee to run the business of the company within parameters laid down by the board and to produce clear, accurate and timely reports to enable the board to make informed decisions.

The board has, through its charter and the delegated authority framework, set aside matters which it cannot delegate.

The following matters are reserved for the board:

- Reviewing the strategic direction of the company and adopting business plans proposed to achieve the company's objectives.
- Approving specific financial objectives, including budgets, and non-financial objectives and policies proposed by management.
- Overseeing the company's performance against agreed targets and objectives.
- Reviewing the process for management of business risk.
- Reviewing processes for ensuring compliance by the company with its key legal obligations.
- Delegating appropriate authority to the chief executive officer for capital expenditure and reviewing investment, capital and funding proposals reserved for board approval in terms of the delegation policy set out in its charter.
- Appointing the chief executive officer and executive and non-executive directors on recommendation from the human resources, remuneration and nominations committee.
- Approving succession planning for key positions within the company.
- Providing leadership and vision in a way that will enhance value and ensure the long-term organisational health of the company.

Board composition

In keeping with the recommendations of the code, the Kumba board comprises a majority of independent non-executive directors. Non-executive directors are considered to have the skill and experience to bring balanced and independent judgement to bear on company business. The board currently comprises, in addition to the chairman, two executive and seven non-executive directors, five of whom are independent according to the definition contained in the Corporate Laws Amendment Act. Independent directors, and biographical details for each director appear on page 43.

The board is chaired by Lazarus Zim, who is responsible for leading the board and for its effectiveness. The chief executive officer, Chris Griffith, is responsible for executing strategy and day-to-day management of the company, supported by the executive committee which he chairs.

Frequency and attendance of meetings

During the review period, the board met six times, the audit and risk committee four times, the safety and sustainable development committee and Remco each met four times. The detail of directors attendance of meetings is set out in the table below right.

Induction and training

The company secretary arranges an appropriate induction programme for directors where required or when a new director is appointed. The programme includes visiting operations, and interviews with operational management to facilitate an understanding of the business. Corporate governance training, including an explanation of directors' fiduciary duties and continuing obligations of the JSE Listings Requirements is tailored for individual director's requirements. The company secretary provides directors with updates on legislative developments. Non-executive directors can, where necessary, obtain independent professional advice at the expense of the company.

Company secretary

The company secretary provides the board as a whole and the directors individually with guidance on discharging their responsibilities. He is also a source of information and advice to the board on matters of ethics and corporate governance. The company secretary maintains and regularly updates the corporate governance manual which is distributed to new directors, and ensures that the board and company comply with the Listings Requirements of the JSE.

Committees of the board

Subject to those matters reserved for its decision, the board delegates certain responsibilities to a number of standing committees: audit and risk; Remco; and safety and sustainable development. The terms of reference for each committee are published on the company's website.

Human resources, remuneration and nominations committee (Remco)

Remco is responsible for making recommendations to the board on the appointment, remuneration policies and practices for the chief executive, executive committee members and senior management.

	Board (6 meetings)	Audit & risk committee (4 meetings)	Safety & sustainable development committee (4 meetings)	Remco (4 meetings)
PL Zim	All	–	–	All
PM Baum	All	–	–	All
GS Gouws	5	2*	–	–
CI Griffith**	3	2*	1	2
PM Matlare	4	–	–	2
DD Mokgatle	All	All	All	–
AJ Morgan	5	2	All	All
ND Moyo	5	2	–	–
VP Uren	All	All	–	–
ZBM Bassa***	–	–	–	–

* Meeting attended as an invitee
** Appointed 1 July 2008
*** Appointed 14 December 2008

Directors' attendance

The committee makes recommendations to the board on the composition of the board and board committees and ensures that the board comprises suitably qualified individuals. It consults other directors in its evaluation of the chairman of the board, the chief executive and individual directors.

Remco normally meets four times each year and presently comprises Allen Morgan (chairman), Peter Matlare, Philip Baum and Lazarus Zim.

Safety and sustainable development committee (S&SD)

The S&SD committee is responsible for developing policies and guidelines to manage sustainable development, safety, health and environmental matters. The committee normally meets four times each year, including a visit to an operation. Mine managers are invited to attend committee meetings. The committee presently comprises: Dolly Mokgatle (chairman), Allen Morgan and Peter Matlare.

Audit and risk committee

The primary role of the committee is to ensure the integrity of financial reporting and the audit process, and that a sound risk management process and effective systems of internal control are maintained. In accordance with the Corporate Laws Amendment Act, the audit & risk committee reported is included in this annual financial review on the next page.

Executive committee

The executive committee is not a sub-committee of the board. It is responsible for implementing the strategies and policies determined by the board, managing the business and affairs of the company, prioritising the allocation of capital, technical and human resources and establishing best management practices.

The executive committee is also responsible for senior management appointments and monitoring their performance and acts as the company's risk committee for the purpose of reviewing and monitoring Kumba's systems of internal control. The membership of this committee consists of the executive directors, executive heads, the mine general managers and the company secretary.

Audit and Risk Committee Report

Role of the audit and risk committee

The primary role of the committee is:

- to ensure the integrity of financial reporting and the internal and external audit processes;
- to ensure that a sound risk management process and effective systems of internal control are maintained; and
- to monitor developments in corporate governance to ensure the company continues to apply high and appropriate standards.

The Kumba board approved the terms of reference for the committee and these are available on the company's website.

Composition of the committee

The membership of the committee comprises independent non-executive directors and they are:

- DD Mokgatle (Acting Chairman)
- AJ Morgan
- ND Moyo

Zarina Bassa was appointed as a member and chairman of the committee on 14 December 2008.

Full biographical detail for the directors can be found on page 43 of this annual financial review. The chief executive officer, chief financial officer, and representatives of the internal and external auditors attend all meetings as invitees.

Internal audit

Internal audit services for the company in 2008 were performed by Anglo Business Assurance Services (ABAS). ABAS were commissioned to review the enterprise wide integrated risk management processes of the company and to provide assurance to the committee on the effectiveness of the processes.

The internal audit plan was approved by the committee and covered a broad cross section of activities identified by both management and the committee with material findings, recommendations and management comment summarised for the committee. The committee reviews the effectiveness of the internal audit function annually.

External audit

Deloitte & Touche acted as the external auditors to the company throughout the year. The lead partner Brian Smith was appointed as a designated auditor for the company for 2008 by the shareholders at the company's annual general meeting held on 28 May 2008. The external auditors may not be engaged in any material non-audit work without the prior approval of the committee. The committee is responsible for the annual work plan and fee budget for the auditors. The committee has reviewed the independence of Deloitte as external auditors before recommending to the board that their re-election should be proposed to the shareholders.

Committee's activities in 2008

The committee met four times in the year under review. The committee meetings are held before the board meetings and the committee chairman reports its material findings and recommendations to the board at its meeting. The committee attended to the following matters in 2008:

- Reviewed the company's 2007 annual and 2008 interim financial statements and other formal announcements relating to the company's financial performance and made recommendations to the board for approval.
- Reviewed and recommended to the board the 2007 final dividend and the 2008 interim dividend.
- Reviewed the independence of the external auditors.
- Agreed in consultation with management the provisional audit fee for the 2008 financial year.
- Reviewed the letters of representation from management to the external auditors.
- Reviewed the external audit reports and management comments.
- Held two meetings with the external auditors in the absence of management and no major areas of concern were raised.
- Reviewed and approved the annual internal audit plan, ensuring that material risk areas were included and that the coverage of business processes was acceptable.
- Reviewed the internal audit report focusing on the effectiveness of internal controls and risk management processes.
- Reviewed reports on incidents on non-compliance with the company's ethics policy. This included receiving and reviewing reports on material fraud incidents and whistle-blowing reports.
- Recommended the adoption of certain accounting standards upon recommendation by management.

2008 annual financial statements

The committee has recommended the financial statements for approval to the board. The board has subsequently approved the financial statements which will be tabled at the annual general meeting.

DD Mokgatle
Acting Chairman of the audit and risk committee

In Kumba, risk management is a well-defined, logical and methodical process. Instilling a risk-conscious culture throughout our group is a continual focus as we strive to reach our goal of maximising opportunities and minimising exposures to risk.

Risk management

Risk philosophy

Kumba maintains an integrated, enterprise-wide, risk management programme ('IRM') and applies a logical, systematic and repetitive methodology to identify, analyse, assess, treat and monitor all risks, whether they are insurable or not.

The effectiveness of the IRM process is measured by how well it aligns the key fundamentals of governance, business objectives, ethics, policies, standards, strategies and compliance. Kumba recognises the complexity and diversity of risks that face all its operational activities and integrates all efforts to maximise opportunities and minimise exposures to risk and to reduce them, where necessary, to levels commensurate with its risk appetite.

Risk culture

Kumba's policy is zero tolerance for compliance failures and its aim is to identify speedily and to rectify any deviation. Promoting a risk-conscious culture is a constant focus throughout the group and this culture proactively supports achieving our strategic business objectives. Each risk owner is responsible for monitoring the existing and ever-changing risk profile of Kumba on a continuous basis. To this end, a monthly risk review that covers both internal and external risks has been instituted with findings reported to the executive committee.

Risk committees play an important role in identifying operational and strategic risks and in the development and application of generic mitigating strategies. They also have a risk oversight function by virtue of being closer to activities that could have adverse results.

Risk management objectives

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.

Reporting

Continuous monitoring of risk and control processes, across headline risk areas and other business specific risk areas, provides the basis for regular and exception reporting to business management and boards.

The risk assessment and reporting criteria are designed to provide the executive committee and the board, via the audit & risk committee, with a consistent, enterprise-wide perspective of the key risks. The reports which are submitted quarterly to the executive committee, the audit & risk committee and the board 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 considers the key findings from the ongoing monitoring and reporting processes, management assertions and independent assurance reports. The board also takes into account 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.

Risk factors

Kumba's financial position, results of operation, growth, strategies and dividend policy could be materially adversely affected by risks, including any of those set out below. These risks could also have an adverse effect on the trading price of Kumba shares.

The risks described below are not the only risks faced by Kumba. Currently unidentified risk factors and risks deemed less material by directors may also impair operations.

Regulatory

Mining operations, development and exploration are subject to extensive legislation and regulations. Changes in this regulatory environment could increase Kumba's cost of production and failure to comply could result in the revocation of consents, licences and rights it requires to conduct its business.

Employee safety

Mining is a hazardous industry and failure to adopt high levels of safety management can result in a number of negative outcomes; harm to employees and communities that live near Kumba's mines as well as fines and penalties, liability to employees and third party for injury. Kumba operates in an industry that is subject to numerous safety regulations. Failure to provide a safe working environment may expose the organisation to compensation liabilities, loss of business reputation and other costs. Evolving regulatory standards and expectations can result in increased litigation and costs.

Environment

Costs associated with rehabilitating land disturbed during the mining process and addressing environmental, health and community issues are estimated and provided for based on the most current information available. Estimates may, however, be insufficient and further issues may be identified. Any underestimated or unidentified rehabilitation costs will reduce earnings and could materially and adversely affect Kumba's asset values, earnings and cash flows. The operations of Kumba are subject to environmental legislation and regulations.

Social

In considering the needs and quality of life of our community stakeholders, we are in discussions with elected representatives of the Dingleton township, 28km from Kathu, to develop a mutually beneficial solution to issues arising from the community's proximity to the mining operation at Sishen Mine.

Employee health

The HIV/Aids infection rate in South Africa is high and may adversely impact on the operations of Kumba through reduced productivity, general medical costs and absenteeism.

Employees

Kumba is, to a great extent, reliant on a large number of people employed in its operations. Despite Kumba's good relations with bargaining unit employees and their trade unions, we remain exposed to risks as a unionised operation posed by organised labour disruptions and disputes. The strong commodity cycle and large number of projects being developed in the resources industry have led to increased demand for skilled personnel. This has led, and could continue to lead to, increased capital and operating costs and difficulties in developing, acquiring and retaining skilled personnel.

Infrastructure

While Kumba does not own or operate any of its logistical chain assets, it exports iron ore to international customers through a single channel rail and port. Labour and other operational risks associated with managing the rail and port operators' assets fall outside Kumba's direct control. Inadequate support facilities, services, installations (water, power and transportation) may affect the sustainability or growth of the business, leading to a loss of competitiveness, market share and reputation.

Operational performance

The mining operations of Kumba are subject to the risks and hazards normally encountered in opencast mining operations. These risks include environmental hazards, such as unexpected geological pressures and ground subsidence, and operational risks relating to materials handling, industrial accidents, blasting and removing material. Mining and beneficiation processes also rely on key inputs, for example fuel and electricity. Appropriate insurance can provide protection from some, but not all, the costs that may arise from unforeseen events. If any of these risks should materialise, such an event could result in serious harm to employees and contractors, delays or losses in production, increased production costs and possible increase in liabilities. Disruption to the supply of key inputs, or changes in their pricing, may have a material and adverse impact on Kumba's asset values, costs, earnings and cash flows. Failure to meet production targets could result in increased unit costs. The impact is more pronounced at operations with a high level of fixed costs.

Legal

Litigation may threaten Kumba's capacity to consummate important transactions, enforce contractual agreements or implement specific strategies and activities.

Counterparty

Kumba may be exposed to counterparties that are unable to fulfil their obligations due to cash flow difficulties during global economic meltdown. In addition, problems involving credit risk at steel mills, which are the primary buyers of iron ore, could have a serious impact on Kumba's operating results.

Technology

Kumba maintains IT and communication networks and applications to support its business activities. Technology failures may lead to business disruptions and security breaches may result in unavailability of systems, confidentiality of information being compromised or loss of integrity of information.

Currency

Kumba's iron ore export prices are determined in US Dollars and the company negotiates iron ore prices in that currency with customers. Currency movements of the US Dollar against the Rand therefore could have a significant effect on the financial position and results of Kumba. The group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise which may expose it to economic or accounting losses.

Mining exploration and projects

Kumba seeks to develop new mining properties and expand its existing operations as a means of generating shareholder value. New mining properties are identified through an active exploration programme while current operations are expanded by technological applications to beneficiate medium-grade iron ore. This capability will cover internal levers (delivery on projects) and external constraints, ensuring that "new tonnes" reach customers on or ahead of schedule. The associated challenge of this opportunity is to bring growth projects on stream, on time and below budget. Resource exploration and development are speculative in nature, characterised by a number of significant risks. Unanticipated delays and project execution complications along with increasing regulatory, environmental and social approvals may result in significant increases in construction costs and/or delays in construction. These increases/delays could materially and adversely affect the economics of projects.

Commodity price fluctuations

Fluctuations in commodity prices can occur due to sustained price shifts reflecting underlying global economic and geopolitical factors, industry demand and supply balances and product substitution (steel). Kumba's products are influenced strongly by world economic growth, particularly that in Europe and Asia. The Chinese market has become a significant source of global demand for commodities. Whilst this increased demand represents a significant business opportunity, Kumba's exposure to China's economic fortunes and economic policies has increased.

Uncertainties and challenges faced by global economy resulted in unprecedented volatility and rapid decreases in commodity prices and volumes traded in the fourth quarter of 2008. Freight rates declined to a five-year low, reducing the cost of iron ore transport. The first half of 2009 is likely to be challenging for iron ore sales volumes. Price negotiations will be a key area of uncertainty in this volatile economic period.

Board of directors

Lazarus Zim
Chairman (48)
MCom, DCom (hc)
Lazarus Zim is the chairman of Mvelaphanda Resources, Northern Platinum and Afripalm Resources. Previously, Lazarus was chief executive of Anglo American South Africa and managing director of MTN International.

Chris Griffith
Chief executive officer (44)
B Eng (Mining) Hons, Pr Eng
Chris was previously the Executive Head of Joint Ventures for Anglo Platinum Limited. Chris has over 18 years of mine management experience. He was previously General Manager of Anglo Platinum's Amandebult Platinum Mine and Bafokeng Rasimone Platinum Mine.

Vincent Uren
Chief financial officer (47)
BCom, CTA, CA(SA)
Vincent has almost 20 years' experience in corporate finance, many of these gained with the Anglo American plc group where he was involved in a number of diverse and complex local and international transactions.

Dolly Mokgatle
Independent non-executive director (52)
BProc, LLB, HDip Tax Law
Dolly is an executive director of the Peotona group. She is chairman of EDI Holdings and deputy chairman of the National Electricity Regulator of South Africa (NERSA). She also holds several other corporate directorships. She was the chief executive officer of Spoornet and managing director of transmission at Eskom.

Peter Matlare
Independent non-executive director (49)
BSc (hons) (Political Science), Masters (Southern African studies)
Peter is chief executive officer of Tiger Brands. He was chief strategy and business development director in the Vodacom Group. His previous positions include commercial director of Vodacom South Africa, and chief executive officer of the SABC.

Gert Gouws
Non-executive director (50)
BCom (Law), BCom (hons), CA(SA), FCMA
Gert is the chief financial officer and alternate director of the Industrial Development Corporation. He is also a director of Hernic Ferrochrome, Algorax and Umicore Autocat South Africa.

Nkosana Moyo*
Independent non-executive director (57)
PhD (Physics), MBA
Nkosana is a managing partner at Actis Capital llp Africa. He also worked for the International Finance Corporation in Washington DC and served as Zimbabwe's minister for industry and trade.

Philip Baum
Non-executive director (54)
BCom, LLB, HDip Tax Law
Philip is chief executive officer of Anglo American's Ferrous Metals and Industries division. He is a member of Anglo American plc's executive committee. Other directorships include Anglo Platinum, Exxaro Resources, Minas RIO, Tongaat-Hulett, Hulamin and Samancor Manganese.

Allen Morgan
Independent non-executive director (62)
BSc, BEng (Elect), Pr Eng
Allen served as the Eskom chief executive between 1994 and 2000 and has recently retired as non-executive director of Eskom Holdings. He previously served as the chairman of Kumba Resources.

Zarina Bassa
Independent non-executive director (45)
B.Acc, CA(SA)
Zarina is the executive chairman of Zarina Bassa Investments. She was previously the Vice Chairman of Absa Retail Bank and member of the Absa Group executive committee. She was previously the executive director responsible for Absa Private Bank and before that Absa Retail Bank. She spent 17 years with Ernst & Young and was made partner in 1986. Zarina serves on a number of private and public institutions.

* Zimbabwean

Annual financial statements

Directors' responsibility for financial reporting
for the year ended 31 December 2008

The directors are responsible for maintaining adequate accounting records, the preparation of the annual financial statements of Kumba Iron Ore Limited and the group and for developing and maintaining a sound system of internal control to safeguard shareholders' investments and the group's assets. In presenting the accompanying annual financial statements, International Financial Reporting Standards have been followed, applicable accounting policies have been used and prudent judgements and estimates have been made.

In order for the directors to discharge their responsibilities, management has developed and continues to maintain systems of internal control aimed at reducing the risk of error or loss in a cost-effective manner. Such systems can provide reasonable but not absolute assurance against material misstatement or loss. The directors, primarily through the audit committee, which consists of non-executive directors, meet periodically with the external and internal auditors as well as the executive management to evaluate matters concerning accounting policies, internal control, auditing and financial reporting. The group's internal auditors independently evaluate the internal controls and coordinate their audit coverage with the external auditors. The external auditors are responsible for reporting on the financial statements. The external and internal auditors have unrestricted access to all records, property and personnel as well as to the audit committee.

The directors are not aware of any material breakdown in the functioning of these controls and systems during the year under review. The directors are of the opinion, based on the information and explanations given by management and the internal auditors, that the internal accounting controls are adequate, so that the financial records may be relied on for preparing the annual financial statements and maintaining accountability for assets and liabilities.

The external auditors have audited the annual financial statements of the company and the group and their unmodified report appears on page 47.

Against the background, set out above, the directors of the company accept responsibility for the group annual financial statements on pages 48 to 121 and the Kumba Iron Ore Limited company annual financial statements on pages 122 to131, which were approved by the board of directors on 13 February 2009 and are subject to the approval by the shareholders at the annual general meeting on 20 March 2009. The group and company annual financial statements are signed on the directors' behalf by:

PL Zim
Chairman

CI Griffith
Chief executive officer

VP Uren
Chief financial officer

13 February 2009

Certificate of the company secretary

In terms of the Companies Act 61 of 1973 of South Africa, as amended, I, VF Malie, in my capacity as company secretary, confirm that, for the year ended 31 December 2008, Kumba Iron Ore Limited has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this act and that all such returns are true, correct and up to date.

VF Malie
Company secretary

13 February 2009

Independent auditor's report to the shareholders of Kumba Iron Ore Limited

We have audited the group and company annual financial statements of Kumba Iron Ore Limited, which comprise the balance sheet and the consolidated balance sheet as at 31 December 2008, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity and cash flow statement and the consolidated cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 48 to 131.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group as at 31 December 2008, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Deloitte & Touche – Johannesburg

Registered Auditors

Per BW Smith
Partner

13 February 2009

Buildings 1 and 2, Deloitte Place
The Woodlands Office Park Woodlands Drive
Sandton

National executive:

GG Gelink Chief Executive; AE Swiegers Chief Operating Officer; GM Pinnock Audit; DL Kennedy Tax, Legal and Financial Advisory; L Geeringh Consulting; L Bam Corporate Finance; CR Beukman Finance; TJ Brown Clients & Markets; NT Mtoba Chairman of the Board

A full list of partners and directors is available on request

BBBEE rating: Level 3 contributor/AA (certified by Empowerdex)

Directors' report
(company registration number 2005/015852/06)

For the year, profit attributable to shareholders of R7.2 billion was achieved. This was R4.0 billion higher than the R3.2 billion achieved in the previous year. Earnings per share of R22,80 and headline earnings per share of R23,02 were achieved for the year.

The directors have pleasure in presenting the annual financial statements of Kumba Iron Ore Limited (Kumba) and the group for the year ended 31 December 2008.

Nature of business

Kumba was incorporated in South Africa on 16 May 2005 and commenced trading in November 2006 following the unbundling of Kumba from Exxaro Resources Limited. Subsequent to unbundling Kumba listed on the JSE Limited (JSE) on 20 November 2006 as the only pure play iron ore company on the JSE.

Kumba is a mining group of companies focusing on the exploration, extraction, beneficiation and marketing and sale of iron ore. Kumba produces iron ore in South Africa at Sishen Mine in the Northern Cape Province and at Thabazimbi Mine in the Limpopo Province.

The nature of the businesses of the significant operating subsidiaries, associates and joint ventures is set out in annexures 1 and 2.

Corporate governance

The board endorses the Code of Good Corporate Practices and Conduct as contained in the King II report on corporate governance and has satisfied itself that Kumba has complied throughout the year in all material aspects with the code and the Listings Requirements of the JSE. The corporate governance report is set out on pages 34 to 43.

Financial results

Operating results

For the year, profit attributable to shareholders of R7.2 billion was achieved. This was R4.0 billion higher than the R3.2 billion achieved in the previous year. Earnings per share of R22,80 and headline earnings per share of R23,02 were achieved for the year.

Capital expenditure

Capital expenditure on the Sishen Expansion Project (SEP) to date is R4.2 billion, with R927 million incurred during 2008 and approximately R365 million expected to be incurred in 2009.

As at 31 December 2008 revenue of R579 million and expenses of R209 million were capitalised (net R370 million operating profit) to the project relating to the period 1 January to 31 May 2008. The capitalisation of revenue and expenses ceased on 1 June 2008 as substantially all the activities undertaken to bring the jig plant to the location and condition necessary for it to be capable of operating in the manner intended by management had been completed.

The Sishen South project was approved on 31 July 2008. To date R702 million of the total R8.5 billion capital expenditure has been incurred with approximately R2.3 billion expected to be incurred in 2009 and R3.4 billion in 2010.

Net debt

The group's net debt position at 31 December 2008 has reduced to R48 million from R2.6 billion as at 31 December 2007 before the payment of the final 2008 dividend. A R5.4 billion term debt facility was secured during 2008 to fund future capital expenditure.

Accounting policies

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 from the date when borrowing costs were first incurred in 2006. The effect on basic earnings per share is an increase of 29 cents and 26 cents for the years 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 years ended 31 December 2008 and 2007 respectively.

Share capital

Authorised capital

The company's authorised share capital of 500,000,000 shares remained unchanged during the year.

Shares issued

A further 2,357,920 shares were issued during the year in terms of the Kumba Management Share Option Scheme. Of the total number of shares in issue 1,795,410 shares are held by the Kumba Iron Ore Management Share Trust to be utilised to settle the obligations to employees of Kumba and Exxaro Resources Limited under the Management Share Option Scheme (refer to note 22 of the group annual financial statements).

Unissued shares

The directors are authorised to issue unissued shares until the next annual general meeting. Shareholders will be asked to extend the authority of the directors to control the unissued shares of the company at the forthcoming annual general meeting, up to a maximum of 5% of the issued capital.

Dividends

An interim dividend of R8,00 per share was paid on 25 August 2008. A final dividend of R13,00 per share was declared on 13 February 2009 from profits accrued during the financial year ended 31 December 2008. The total dividend for the year amounted to R21,00 per share.

The estimated total cash flow of the final dividend of R13,00 per share, payable on 16 March 2009, is R4.1 billion.

The board of directors is satisfied that the capital remaining after payment of the final dividend is sufficient to support the current operations and to facilitate future development of the business.

Directors

The names of the directors in office during the year and at the date of this report are set out on page 43. The remuneration and fees of directors are set out on pages 51 to 58.

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 South Africa's national electricity supplier – Eskom.

On 14 December 2008, ZBM Bassa was appointed as an independent non-executive director and chairman of the audit and risk committee of Kumba.

The following directors retire by rotation in terms of the articles of association but are eligible and offer themselves for re-election as directors:

- CI Griffith
- ZBM Bassa
- DD Mokgatle
- ND Moyo
- AJ Morgan

Directors' report continued
(company registration number 2005/015852/06)

Holding company and related parties

Anglo American plc is the group's ultimate holding company. The effective interest in the group of 62.95% is held through Anglo South Africa Capital (Pty) Limited (53.22%) and Stimela Mining Holdings (Pty) Limited (9.73%).

Auditors

Deloitte & Touche continued in office as auditors of Kumba and its subsidiaries. At the annual general meeting on 20 March 2009, shareholders will be requested to reappoint Deloitte & Touche as auditors of Kumba for the 2009 financial year.

Post-balance sheet events

The directors are not aware of any 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.

Going concern statement

The directors have reviewed the group's financial budgets with their underlying business plans for the period to 31 December 2009. In light of the current financial position and existing borrowing facilities, they consider it appropriate that the annual financial statements be prepared on the going-concern basis.

Company secretary

The company secretary of Kumba is VF Malie. His business and postal addresses appear on the inside back cover.

Special resolutions

On 28 May 2008 the shareholders of Kumba resolved that the company and any of its subsidiaries may from time to time be authorised to acquire of the company's own shares subject to the articles of association of the company, the provisions of the Companies Act and the Listings Requirements of the JSE.

Legal proceedings

During 2007, Lithos Corporation (Pty) Limited (Lithos) 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. A trial date has been provisionally allocated, being 8 March 2010 to 2 April 2010. 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 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. The arbitration process will commence during the third quarter of 2009. These proceedings are confidential in nature.

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

Remuneration report
for the year ended 31 December 2008

Kumba's remuneration philosophy

The human resources, remuneration and nominations committee ensures that the principles of accountability and transparency are applied and that remuneration is linked to performance and that they support the business strategy.

The following remuneration philosophy is applied by Kumba:

- To motivate and reinforce the performance of individuals.
- To attract and retain talented people.
- To compete in the marketplace with the intention of being a preferred employer is key in supporting the implementation of Kumba's business strategy.
- To apply it equitably, fairly and consistently in relation to job responsibility, the employment market and personal performance.

The directors and members of the Kumba executive committee are appointed and remunerated based on their ability to contribute to the overall performance of Kumba. The purpose of the policy on directors' fees and remuneration is to ensure that executive directors and senior managers receive remuneration that is appropriate to their scope of responsibility and contribution to the group's overall performance.

Executive directors' remuneration

The remuneration of executive directors consists of a fixed component and a variable component (short and long-term incentives). The long-term incentives comprise grants under the Kumba Management Share Option Scheme, Phantom Share Scheme, the Share Appreciation Rights Scheme, the Long-Term Incentive Plan and Deferred Bonus Plan. Both fixed and variable components ensure that a substantial portion of the remuneration package is linked to the performance of the business. The Share Appreciation Rights Scheme and the Long-Term Incentive Plan were implemented with effect from March 2007 to replace the Kumba Management Share Option Scheme and the Phantom Share Scheme. The Deferred Bonus Plan was implemented for executive directors from 2008.

A portion of the approved cash salary and short-term incentives of the chief financial officer's remuneration are determined and paid in terms of a separate employment agreement concluded between Kumba International BV and the respective executive director. The actual percentage paid is calculated on the basis of the time required to perform services offshore.

Fixed remuneration

The fixed salaries of executive directors are reviewed annually and determined with reference to the scope and nature of an individual's role and his performance and experience.

In addition to a basic cash salary, executive directors receive benefits that include contributions to the membership of a medical health care scheme and a vehicle allowance. Retirement and risk benefits are provided to executive directors subject to the rules of the Kumba Pension and Provident Selector Funds. Contributions calculated as a percentage of the basic cash salary are paid to contributory retirement schemes and are subject to the rules of the pension and provident funds.

Short-term incentives

In addition to fixed remuneration, each executive director participates in a short-term incentive scheme to reward and motivate the achievement of agreed group performance objectives.

The approved principles of the short-term incentive scheme for the 2008 financial year comprise financial, business and strategic performance criteria and metrics. Kumba's financial performance targets are set by the board using earnings before interest and tax and return on capital employed as measures. Actual performance on Kumba's financial targets determined 50% of the executive directors' short-term incentive in 2008. The balance of the short-term incentive is determined by the extent to which strategic and other business performance objectives are achieved.

In total executive directors may earn an annual short-term incentive of up to 60% of fixed remuneration.

Remuneration report continued
for the year ended 31 December 2008

On 12 February 2008 the committee considered in respect of 2007 the overall assessment of the performance of the executive directors participating in the short-term incentive scheme against the agreed group financial targets and the levels of achievement against their strategic and other business performance objectives.

Long-term incentives

Executive directors and senior management participate in the following long-term incentive schemes:

Old schemes – transferred to Kumba post-unbundling

1. Kumba Management Share Option Scheme
2. Phantom Share Scheme

New schemes

1. The Share Appreciation Rights Scheme
2. The Long-Term Incentive Plan
3. The Deferred Bonus Plan

On 8 November 2008 the committee considered the adoption of a Bonus Share Plan for executive directors and senior employees to be implemented in 2009. The adoption and implementation of the scheme is subject to approval by shareholders at the annual general meeting (AGM) on 20 March 2009. Detail of the plan is provided in a separate circular to shareholders.

Kumba Management Share Option Scheme

Prior to the unbundling of the then Kumba Resources Limited (Kumba Resources) senior employees 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 if they remained shareholders of the then Kumba Resources Limited, the schemes continued in Kumba Iron Ore Limited and in Exxaro Resources Limited.

The Management Share Option 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.

From the date of the unbundling, no rights in terms of the Kumba Management Share Option Scheme have been granted.

Subsequent to the secondment of EJ Myburgh to South Africa's national electricity supplier, Eskom, no executive directors currently participate in the scheme.

Phantom Share Scheme

As a result of restrictions related to the empowerment transaction of Kumba Resources, certain executive directors and senior employees 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.

From the date of the unbundling, no rights in terms of the Phantom Share Scheme have been granted.

Subsequent to the secondment of EJ Myburgh to South Africa's national electricity supplier, Eskom, no executive directors or senior employees currently participate in the scheme.

The Share Appreciation Rights Scheme

Executive directors and 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 the exercise (exercise price) of the right and the 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. Rights not exercised within seven years will lapse.

With the planned implementation of the Bonus Share Plan in 2009 no rights will be granted under the scheme in future.

The Long-Term Incentive Plan (LTIP)

Executive directors and 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 annual LTIP awards made since the inception of the plan in 2007 are subject to the achievement of stretching performance targets relating to total shareholder return (TSR) and to a financial measure, 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.

The Deferred Bonus Plan

The purpose of the plan is to encourage executive directors and senior employees to utilise part of their after tax short-term incentive payment for the purpose of acquiring shares (pledged shares) in Kumba. Participants who own pledged shares are entitled to all rights in respect of these shares including dividend and voting rights. If the pledged shares are held for the pledge period (usually three years) and the participants remain in the employ of the company for the pledge period, then the company will provide a matching award of free shares (matching shares). Executive directors and senior management first participated in this plan from 2008.

With the planned implementation of the Bonus Share Plan in 2009 no pledged shares will be granted under the scheme in future.

The Bonus Share Plan

With ever-increasing importance of attracting and retaining talent, the Bonus Share Plan will be implemented in 2009 (subject to shareholder approval). Participants of the plan will receive forfeitable shares. All previous awards under the Share Appreciation Rights Scheme and Deferred Bonus Plan will be grandfathered. The plan strives to improve the link between performance and reward while promoting share ownership by executive directors and senior employees.

Executive directors' remuneration for the year was as follows:

Executive directors (R'000)	Salary	Short-term incentive[1]	Retirement funding	Other benefits[2]	**Total 2008**	Total 2007
CI Griffith[3]	1,518	–	153	102	**1,773**	–
VP Uren[4]	2,495	636	228	215	**3,574**	3,705
EJ Myburgh[5]	1,512	902	143	89	**2,646**	2,929
Total	**5,525**	**1,538**	**524**	**406**	**7,993**	**6,634**

1 Bonus payable for the period 1 January 2008 to 31 December 2008.
2 Includes the encashment of leave accrued.
3 The remuneration for 2008 relates to the period 1 July 2008 to 31 December 2008.
4 Included in salary above is R437,355 (2007 – R320,744) payable to VP Uren by Kumba International BV in respect of services rendered as director. Included in remuneration for 2007 is R1,145,054 short-term incentive payments received from Anglo Operations Limited (Anglo Operations) for services rendered as an employee of Anglo Operations prior to 20 November 2006.
5 The remuneration for 2008 relates to the period 1 January 2008 to 30 June 2008.

Remuneration report continued
for the year ended 31 December 2008

Non-executive directors' fees

The committee recommends fees payable to the non-executive directors for approval by the shareholders. The annual fees payable to non-executive directors for the period commencing 1 January 2008 were approved by the shareholders at the AGM of 28 May 2008. Fees are approved for an annual period commencing on 1 January each year. The revised fees of the non-executive directors will be submitted to the shareholders for approval at the next AGM on 20 March 2009.

Non-executive directors' fees approved for 2008 were as follows:

	Jan 2008 to Dec 2008	
Board/Committee (R'000)	**Member**	**Chairman**
Chairman of the Kumba board		**600**
Kumba board	**140**	
Audit committee	**90**	**150**
Other board committees	**60**	**120**

Non-executive directors' fees for the year were as follows:

Non-executive directors (R'000)	Board meeting fees	Committee fees	**Total 2008**	Total 2007
PL Zim	600	60	**660**	275
Z Bassa[1]	–	–	**NA**	NA
PM Baum[2]	140	60	**200**	155
GS Gouws[2]	140	–	**140**	210
DD Mokgatle	140	270	**410**	235
N Moyo	140	90	**230**	165
AJ Morgan	140	188	**328**	190
PB Matlare	140	180	**320**	225
Total	**1,440**	**848**	**2,288**	**1,455**

1 Appointed as non-executive director on 3 December 2008.
2 Fees paid to their respective employers and not to the individuals.

Executive committee members' remuneration

The fixed remuneration of members of the Kumba executive committee, other than executive directors, is reviewed and recommended to the Kumba board by the committee.

Similar to the executive directors the members of the Kumba executive committee participate in the short-term incentive scheme as set out above and in the various long-term incentive schemes. Awards in terms of these schemes are under the same terms as detailed above.

The aggregate remuneration of members of the Kumba executive committee (excluding that of the executive directors disclosed separately above) for the year was as follows:

Executive committee members (R'000)	Salary	Short-term incentive	Retirement funding	Other benefits	Total 2008	Total 2007
Aggregate total[1]	11,500	1,677	1,305	2,320	**16,802**	10,203
Number of members					**8**	7

1 Includes the encashment of leave accrued.

Long-term incentive schemes

Kumba long-term incentive schemes

The interests of the directors in shares of the company provided in the form of share options, rights, conditional awards and pledged shares are shown in the tables below.

No variations have been made to the terms and conditions of the schemes during the year, including the performance conditions to which the granting and vesting of the options, rights and conditional awards are subject.

	Number				Rand	R'000	
						Share-based payment expense	
Management Share Option Scheme	Balance at beginning of year	Share options exercised	Share options forfeited	Balance at end of year	Weighted average exercise price	2008	2007
Executive committee members	186,990	28,150[1]	15,650	143,190	78.39	**2,293**	2,132

1 28,150 share options with a weighted average exercise price of R38.30 per share were exercised during the period 1 January 2008 to 31 December 2008 on which a gain of R7,605,561 was realised.

	Number			Rand	R'000	
					Share-based payment expense	
Share Appreciation Rights Scheme	Balance at beginning of year	Rights granted	Balance at end of year	Weighted average exercise price	2008	2007
Executive directors						
CI Griffith	–	7,540	7,540	259.87	**155**	–
VP Uren	10,530	5,624	16,154	201.40	**260**	118
Total	**10,530**	**13,164**	**23,694**	**220.01**	**415**	**118**
Executive committee members	17,820	23,604	41,424	240.32	**770**	200

Remuneration report continued
for the year ended 31 December 2008

Long-Term Incentive Plan	Number			Rand	R'000	
	Balance at beginning and end of year	Conditional award granted	Balance at end of year	Weighted average exercise price	Share-based payment expense 2008	2007
Executive directors						
CI Griffith	–	7,548	7,548	–	**275**	–
VP Uren	10,548	5,267	15,815	–	**361**	233
Total	**10,548**	**12,815**	**23,363**	**–**	**636**	**233**
Executive committee members	17,866	23,009	40,875	–	**1,170**	399

Deferred Bonus Plan	Number			Rand	R'000
	Balance at beginning of year	Pledged shares granted	Balance at end of year	Weighted average exercise price	**Share-based payment expense 2008**
Executive directors					
VP Uren	–	648	648	–	**46**
Total	**–**	**648**	**648**	**–**	**46**
Executive committee members	–	140	140	–	**11**

Anglo American plc group long-term incentive schemes

CI Griffith and VP Uren through their employment at Kumba, a member of the Anglo American plc group, retained of the awards granted whilst participants of the Anglo American plc group long-term incentive schemes. CI Griffith and VP Uren no longer receive awards under these schemes.

As at 31 December 2008 the following awards under the Anglo Platinum long-term incentives schemes were held by CI Griffith:

	Number	Rand
	Balance at beginning and end of year	Weighted average exercise price
Anglo Platinum Share Option Scheme	5,693	233.24
Anglo Platinum Executive Share Appreciation Scheme	8	230.21
Anglo Platinum Executive Share Option Scheme	2,987	677.84

	Number
	Balance at beginning and end of year
Anglo Platinum Long-Term Incentive Plan	2,991

As at 31 December 2008 the following awards under the Anglo American long-term incentives schemes were held by VP Uren:

	Number			Rand
	Balance at beginning of year	Conditional awards released	Balance at end of year	Market price release date
Anglo American Executive – LTIP	18,000	(11,200)	6,800	379.10

	Number	
	Balance at end of year – bonus shares	Balance at end of year – enhancement shares
Anglo American Executive – Bonus Share Plan	2,727	2,222

	Number
	Balance at end of year
Anglo American Executive – Restricted shares	2,734

Remuneration report continued

for the year ended 31 December 2008

Directors' beneficial interest in Kumba

The aggregate beneficial interest in Kumba at 31 December 2008 of the directors of the company and their immediate families (none of which have a holding greater than 1%) in the issued shares of the company are detailed below. There have been no material changes in these shareholdings since that date.

			2008			2007
Beneficial interest	**Number of shares**	**Long-term incentive schemes**[1]	**Total beneficial interest**	Number of shares	Long-term incentive schemes[1]	Total beneficial interest
Executive directors						
CI Griffith	**–**	**15,088**	**15,088**	–	–	–
VP Uren	**4,250**	**32,144**	**36,394**	–	21,078	21,078
EJ Myburgh	**NA**	**NA**	**NA**	635	138,722	139,357
Total	**4,250**	**47,232**	**51,482**	**635**	**159,800**	**160,435**

1 Granted under the Kumba Management Share Option Scheme, Kumba Share Appreciation Rights Scheme, Long-Term Incentive Plan and Deferred Bonus Plan as disclosed in the tables above.

Principal accounting policies

The following principal accounting policies were applied by the company and the group for the financial year ended 31 December 2008. Except for the early adoption of IAS 23 as disclosed, these policies are consistent in all material respects with those applied in previous years.

Statement of compliance

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of those standards, the South African Companies Act and the Listings Requirements of the JSE Limited. The following interpretations and amendment to an issued accounting standard, which are effective in 2008 and have no impact on the financial position, results or cash flow information of the group, were adopted:

- IFRIC 12, Service Concession Arrangements.
- IFRIC 14, IAS 19 Limit on Defined Benefit Asset.
- Amendment to IAS 39, Financial Instruments: Recognition and Measurement.

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 from the date when borrowing costs were first incurred in 2006. The effect on basic earnings per share is an increase of 29 cents and 26 cents for the years 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 years ended 31 December 2008 and 2007 respectively.

The effect on shareholders' equity at 31 December 2007 is an increase of R82 million after taking into account taxation of R39 million and minority interest of R20 million, as follows:

Rand million	**31 Dec 2008**	31 Dec 2007
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

At balance sheet date, the following accounting standard, amendments to issued accounting standards and interpretations, which are relevant to the group but not yet effective, have not been adopted by the group:

- IAS 1, Presentation of Financial Statements (effective from 1 January 2009).

  The amended standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement.

- IFRS 8, Operating Segments (effective from 1 January 2009).

  IFRS 8 replaces IAS 14, Segment reporting, and aligns segment reporting with the requirements of the US standard SFAS 131, Disclosures about segments of an enterprise and related information. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

Principal accounting policies continued

- IFRS 2, Share-based Payment (effective from 1 January 2009).

  The amended standard clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date.

- IFRS 3, Business Combinations, and consequential amendments to IAS 27, Consolidated and Separate Financial Statements; IAS 28, Investments in Associates and IAS 31, Interests in Joint Ventures (effective from 1 July 2009).

  The amended standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

- IAS 39, Financial Instruments: Recognition and Measurement (effective from 1 July 2009).

  The amended standard clarifies the accounting for inflation on financial hedged items and one-sided risk in hedged items.

  Inflation may only be hedged if changes in inflation are a contractually specified portion of cash flows of a recognised financial instrument. If an entity designates an option in its entirety as a hedge of a one-sided risk arising from a forecast transaction, hedge ineffectiveness will arise.

- IFRIC 17, Distribution of Non-cash assets to owners (effective from 1 July 2009).

  The interpretation clarifies that:
  - a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity;
  - an entity should measure the dividend payable at the fair value of the net assets to be distributed;
  - an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss; and
  - an entity should provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.

- On 22 May 2008, the International Accounting Standards Board (IASB) issued Improvements to International Financial Reporting Standards 2008. The Standard includes 35 amendments to various standards.

The group is currently evaluating the impact of these pronouncements.

Basis of preparation

The financial statements are prepared using the historical cost convention except for financial instruments, biological assets and share-based payments which are measured at fair value.

The consolidated financial statements are prepared on the basis that the group will continue to be a going concern.

These accounting policies are consistently applied throughout the group.

Basis of consolidation

The consolidated financial statements present the financial position and changes therein, operating results and cash flow information of the group. The group comprises Kumba, its subsidiaries and interests in joint ventures and associates.

Where necessary, adjustments are made to the results of subsidiaries, joint ventures and associates to ensure the consistency of their accounting policies with those used by the group.

Intercompany transactions, balances and unrealised profits and losses between group companies are eliminated on consolidation. In respect of joint ventures and associates, unrealised profits and losses are eliminated to the extent of the group's interest in these entities. Unrealised profits and losses arising from transactions with associates are eliminated against the investment in the associate.

Subsidiaries

Subsidiaries are those entities over which the group has the power to exercise control. Control is achieved where the group has the ability, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial results of subsidiaries acquired or disposed of are included in the group statements from the effective date on which control is obtained or excluded from such statements from the date on which control ceases.

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recognised in the income statement.

Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

The company carries its investments in subsidiaries at cost less accumulated impairments.

Associates

An associate is an entity, other than a subsidiary or joint venture, over which the group has the ability, directly or indirectly, to participate in, but not exercise control or joint control over, the financial and operating policy decisions of an entity so as to obtain economic benefit from its activities. Typically the group owns between 20% and 50% of the voting equity.

Investments in associates are accounted for using the equity method of accounting from the date on which significant influence commences until the date that significant influence ceases.

Under this method the group's share of profits or losses of associates is recognised in the income statement as equity accounted earnings and its share of movements in equity reserves is recognised in the statement of changes in equity. All cumulative post-acquisition movements in the equity of associates are adjusted against the cost of the investment. When the group's share of losses in associates equals or exceeds its interest in those associates, the group does not recognise further losses, unless the group has incurred a legal or constructive obligation or made payments on behalf of those associates.

Principal accounting policies continued

Goodwill relating to associates is included in the carrying value of those associates.

The total carrying value of associates, including goodwill, is evaluated annually for impairment or when conditions indicate that a decline in fair value below the carrying amount is other than temporary. If impaired, the carrying value of the group's share of the underlying assets of associates is written down to its estimated recoverable amount in accordance with the accounting policy on impairment and recognised in the income statement as part of equity accounted earnings of those associates.

Results of associates are equity accounted from their most recent audited annual financial statements or unaudited interim financial statements.

The company carries its investments in associates at cost less accumulated impairments.

Joint ventures

A joint venture is an economic activity over which the group exercises joint control which is established under a contractual arrangement requiring unanimous consent for financial and operating decisions. It may involve a corporation, partnership or other entity in which the group has an interest.

The group's share of the assets, liabilities, income, expenditure and cash flows of joint ventures are accounted for using the proportionate consolidation method. The proportionate share of the financial results of joint ventures is consolidated into the consolidated financial statements from date on which joint control commences until such time as joint control ceases. Proportionate consolidation combines on a line-by-line basis with similar items in the consolidated financial statements the group's share of the financial results of the joint venture.

The company carries its investments in joint ventures at cost less accumulated impairments.

Foreign currencies

Items included in the financial results of each group entity are measured using the functional currency of that entity. The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The consolidated financial results are presented in Rand, which is Kumba Iron Ore Limited's functional and presentation currency.

Foreign currency transactions

Transactions are translated into the functional currency of an entity at the rate of exchange ruling at the transaction date.

Monetary assets and liabilities that are denominated in foreign currencies are translated into the functional currency of an entity at the rate of exchange ruling at the balance sheet date.

Foreign exchange gains and losses arising on translation are recognised in the income statement, except where they relate to cash flow hedging activities in which case they are recognised in the statement of changes in equity, until such time as the transaction is complete or ceases to be a hedged transaction after which they are recognised in the income statement.

Foreign operations

The financial results of all entities that have a functional currency different from the presentation currency of their parent entity are translated into the presentation currency.

All assets and liabilities, including fair value adjustments arising on acquisitions, are translated at the rate of exchange ruling at the balance sheet date. Income and expenditure transactions of foreign operations are translated at the average rate of exchange. Foreign exchange gains and losses arising on translation are recognised in the statement of changes in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets of the foreign entity and translated at the closing rate.

On disposal of part or all of the investment, the proportionate share of the related cumulative gains and losses previously recognised in the foreign currency translation reserve in the statement of changes in equity are recognised in the income statement.

Property, plant and equipment

Property, plant and equipment, excluding land and assets that are in the process of being constructed, are stated at cost less accumulated depreciation and impairment. Land and assets that are in the process of being constructed, are measured at cost less accumulated impairment and are not depreciated.

The cost of an item of property, plant and equipment shall be recognised as an asset if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

The cost of items of property, plant and equipment include all costs incurred to bring the assets to the location and condition necessary for their usage by the group. The cost of self-constructed assets includes expenditure on materials, direct labour and an allocated proportion of project overheads.

The cost of property, plant and equipment may also include:

- the estimated costs of decommissioning the assets and site rehabilitation costs to the extent that they relate to the asset;
- gains or losses on qualifying cash flow hedges attributable to that asset; and
- capitalised borrowing costs.

The cost of items of property, plant and equipment is capitalised into its various components where the useful life of the components differ from the main item of property, plant and equipment to which the component can be logically assigned. Expenditure incurred to replace or modify a significant component of property, plant and equipment is capitalised and any remaining carrying value of the component replaced is written off as an expense in the income statement. Subsequent expenditure on property, plant and equipment is only capitalised when the expenditure enhances the value or output of the asset beyond original expectations. Costs incurred on repairing and maintaining assets are recognised in the income statement.

Research, development, mineral exploration and evaluation costs are expensed until they result in projects that are evaluated as being technically or commercially feasible, the group has sufficient resources to complete development and can demonstrate how the asset will generate future economic benefits. Once these criteria are met, development costs and ongoing mineral exploration and evaluation costs are capitalised.

Gains and losses on the disposal of property, plant and equipment, which are represented by the proceeds on disposal of such assets less their carrying values at that date, are recognised in the income statement.

Depreciation is charged on a systematic basis over the estimated useful lives of the assets after taking into account the estimated residual values of the assets. Depreciation commences on self-constructed assets when they are ready for their intended use by the group. The useful life of an asset is either the period of time over which the asset is expected to be used or the number of production or similar units expected to be obtained from the use of the asset.

The estimated useful lives of assets and their residual values are reassessed annually, with any changes in such accounting estimates being adjusted in the year of reassessment and applied prospectively.

The estimated useful lives of items of property, plant and equipment are listed in the table on the upper right.

Business combinations

The purchase method of accounting is used when a business is acquired.

On acquisition date, fair values are attributed to the identifiable assets, liabilities and contingent liabilities. Minority interest at acquisition date is determined as the minority shareholders' proportionate share of the fair value of the net assets of subsidiaries acquired.

Fair values of the identifiable assets and liabilities are determined by reference to market values of those or similar items, where available, or by discounting expected future cash flows using the discount rate to present values.

Mineral properties	10 to 28 years
Buildings, infrastructure and residential buildings	5 to 28 years
Mobile equipment, built-in process computers and reconditionable spares	2 to 28 years
Fixed plant and equipment	4 to 28 years
Loose tools and computer equipment	5 years
Mineral exploration, site preparation and development	5 to 28 years

Estimated useful lives of items of property, plant and equipment.

Principal accounting policies continued

The cost of acquisition is the fair value of the group's contribution to the business combination in the form of assets transferred, shares issued or liabilities assumed at the acquisition date plus costs directly attributable to the acquisition.

Goodwill is reflected at cost less accumulated impairment, if any. It represents the excess of the cost of a business combination over the fair value of the group's share of the identifiable net assets of the acquired entity at the date of acquisition. Goodwill is assessed for impairment on an annual basis. Once any impairment has occurred on a specific goodwill item, the impairment will not be reversed in future periods.

Negative goodwill arising on a business combination represents the fair value of the net identifiable assets and contingent liabilities of the entity acquired over the cost of acquisition. Negative goodwill is recognised immediately in the income statement.

The gain or loss on disposal of an entity includes the balance of goodwill relating to the entity.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination from which the goodwill arose.

Non-current assets and disposal groups held for sale

A non-current asset or disposal group (a business grouping of assets and their related liabilities) is classified as held for sale when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The classification as held for sale of a non-current asset or disposal group occurs when it is available for immediate sale in its present condition and the sale is highly probable. A sale is considered highly probable if management is committed to a plan to sell the non-current asset or disposal group, an active divestiture programme has been initiated, the non-current asset or disposal group is marketed at a price reasonable to its fair value and the disposal will be completed within one year from classification.

Upon classification as held for sale, the non-current asset or disposal group is measured at the lower of its carrying amount and its fair value less costs to sell. Any resulting impairment is recognised in the income statement.

On classification as held for sale, the assets are no longer depreciated. Comparative information is not adjusted.

If a non-current asset or disposal group is classified as held for sale, but the criteria for classification as held for sale are no longer met, the disclosure of such non-current asset or disposal group as held for sale is ceased. On ceasing such classification, the non-current assets are reflected at the lower of:

- the carrying amount before classification as held for sale, adjusted for any depreciation or amortisation that would have been recognised had the assets not been classified as held for sale; or
- the recoverable amount at the date the classification as held for sale ceases.

Any adjustments required to be made on reclassification are recognised in the income statement.

A discontinued operation is a disposal group that, pursuant to a single plan, has been disposed of or abandoned or is classified as a disposal group held for sale. Once an operation has been identified as discontinued, or is reclassified as continuing, the comparative information in the income statement is restated.

Impairment of non-financial assets

The group's non-financial assets, other than inventories and deferred tax, are reviewed to determine whether there is any indication that those assets are impaired whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

The impairment recognised in the income statement is the excess of the carrying value over the recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Recoverable amounts are estimated for individual assets or, where an individual asset cannot generate cash inflows independently, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount and an impairment recognised in the income statement.

A previously recognised impairment will be reversed insofar as estimates change as a result of an event occurring after the impairment was recognised. An impairment is reversed only to the extent that the asset or cash-generating unit's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the income statement.

Exploration assets are tested for impairment when development of the property commences or whenever facts and circumstances indicate impairment. An impairment is recognised for the amount by which the exploration assets' carrying amount exceeds their recoverable amount. For the purpose of assessing impairment, the relevant exploration assets are included in the existing cash-generating units of producing properties that are located in the same region.

Biological assets

Biological assets are measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs, with these fair value adjustments recognised as income and expenditure in the income statement in the period in which they occur.

Biological assets comprise livestock and game. The fair value of livestock is determined based on market prices taking into account the age and size of the animals, on the basis that the animal is sold to be slaughtered. The fair value of game is determined as the market price for the game, using auction selling prices achieved for live game.

Both livestock and game held for sale are classified as consumable biological assets.

Financial instruments

Financial assets *(other than derivative financial instruments)*

The group classifies its financial assets into the following categories:

- Loans and receivables.
- Derivative financial instruments.

The classification is dependent on the purpose for which the financial asset is acquired. Management determines the classification of its financial assets at the time of the initial recognition and re-evaluates such designation annually.

Financial assets are recognised on transaction date when the group becomes a party to the contract and thus obtains rights to receive economic benefits and are derecognised when these rights no longer exist.

Financial assets are initially measured at fair value, including any transaction costs. The fair values of financial assets are based on quoted bid prices or amounts derived using a discounted cash flow model.

Investments held by environmental trusts, non-current receivables and trade receivables

Investments held by environmental trusts, non-current receivables and trade receivables are categorised as loans and receivables. Loans and receivables are subsequently measured at amortised cost less accumulated amortisation and impairment.

Principal accounting policies continued

Loans and receivables which comprise both current and non-current receivables, are assessed at each balance sheet date to determine whether objective evidence exists that a financial asset is impaired. To the extent that the carrying value of an individual or group of assets exceeds the carrying amounts of those assets, an impairment is recognised by way of an allowance account in the income statement.

An impairment is reversed when evidence exists that an impairment has decreased. The reversal does not result in the carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents are measured at carrying value which is deemed to be fair value. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the group unless otherwise stated.

Financial liabilities *(other than derivative financial instruments)*

Debt, which constitutes a financial liability, includes short-term and long-term interest-bearing borrowings. Debt is initially recognised at fair value, net of transaction costs incurred and is subsequently stated at amortised cost. Debt is derecognised when the obligation under the contract is discharged, cancelled or has expired. Premiums or discounts arising from the difference between the fair value of debt raised and the amount repayable at maturity date are recognised in the income statement as borrowing costs based on the effective interest rate method.

Derivative financial instruments

All derivative instruments are initially recognised at fair value and are subsequently measured at fair value at balance sheet date. Resulting gains or losses on derivative instruments, excluding designated and effective hedging instruments, are recognised in the income statement.

The group's criteria for a derivative instrument to be designated as a hedging instrument require that:

- the hedge transaction is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk;
- the effectiveness of the hedge can be reliably measured throughout the duration of the hedge;
- there is adequate documentation of the hedging relationship at the inception of the hedge; and
- for cash flow hedges, the forecast transaction that is the subject of the hedge must be highly probable.

Where a derivative instrument is designated as a cash flow hedge of an asset, liability or highly probable forecast transaction, the effective part of any gain or loss arising on the derivative instrument is classified as a cash flow hedge accounting reserve in the statement of changes in equity until the underlying transaction occurs. The ineffective part of any gain or loss is recognised in the income statement.

If the forecast transaction results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is transferred from the cash flow hedge accounting reserve in the statement of changes in equity to the underlying asset or liability on the transaction date. For hedges that do not result in the recognition of a non-financial asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects profits or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, revoked, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedge transaction is no longer expected to occur, the net cumulative gain or loss previously recognised in equity is included in the income statement for the period.

Derecognition of financial assets and liabilities

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, the right to receive cash flows has been retained but an obligation to on-pay them in full without material delay has been assumed or the right to receive cash flows has been transferred together with substantially all the risks and rewards of ownership.

Financial liabilities are derecognised when the associated obligation has been discharged, cancelled or has expired.

Offset

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

Inventories

Inventories, which comprise finished products, work-in-progress, plant spares and stores, raw materials and merchandise, are measured at the lower of cost, determined on a weighted average basis, and net realisable value.

The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and fixed production overheads, but excludes finance costs. Fixed production overheads are allocated on the basis of normal capacity.

Consumable stores are capitalised to the balance sheet and expensed to the income statement as they are utilised.

Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Write-downs to net realisable value and inventory losses are expensed in the income statement in the period in which the write-downs or losses occur.

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and mine closure, are based on the group's environmental policy taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises from environmental disturbance caused by the development or ongoing production of a mine. Any subsequent changes to assumptions in estimating an obligation are recognised in the income statement.

Decommissioning provision

The estimated present value of future decommissioning costs, taking into account current environmental and regulatory requirements, is capitalised as part of property, plant and equipment, to the extent that they relate to the construction of the asset, and the related provisions are raised. These estimates are reviewed at least annually. The effect of subsequent changes to assumptions in estimating obligations that were originally recognised as part of the cost of the asset is adjusted against the asset.

If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the income statement. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy above.

Ongoing rehabilitation expenditure

Ongoing rehabilitation expenditure is recognised in the income statement as incurred.

Contributions to rehabilitation trust

Contributions are made to a dedicated environmental rehabilitation trust to fund the estimated cost of rehabilitation during and at the end of the life of the group's mines. The group exercises full control over this trust and therefore the trust is consolidated. The trust's assets are recognised separately on the balance sheet as non-current assets at fair value. Interest earned on funds invested in the environmental rehabilitation trust is accrued on a time proportion basis and recognised as interest income.

Principal accounting policies continued

Taxation

The income tax charge is determined based on net income before tax for the year and includes deferred tax and Secondary Taxation on Companies.

The tax expense represents the sum of the current tax charge and the movement in deferred tax.

Current tax

The current tax charge is the calculated tax payable on the taxable income for the year using substantively enacted tax rates and any adjustments to tax payable in respect of prior years. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is provided for using the liability method, on all temporary differences between the carrying values of assets and liabilities for accounting purposes and the amounts used for tax purposes and on any tax losses. No deferred tax is provided on temporary differences relating to:

- the initial recognition of goodwill;
- the initial recognition (other than in a business combination) of an asset or liability to the extent that neither accounting nor taxable profit is affected on acquisition; and
- investments in subsidiaries to the extent they will probably not reverse in the foreseeable future.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is recognised in the income statement, except when it relates to items recognised directly to equity, in which case the deferred tax is also taken directly to equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the group intends, and is able to, settle its current tax assets and liabilities on a net basis.

Secondary Taxation on Companies (STC)

STC is recognised as part of the current tax charge in the income statement when the related dividend is declared. When dividends received during the current year can be offset against future dividend payments to reduce the STC liability, a deferred tax asset is recognised to the extent of the future reduction in STC.

Employee benefits

Short- and long-term benefits

The cost of all short-term employee benefits, such as salaries, bonuses, housing allowances, medical and other contributions, is recognised in the income statement during the period in which the employee renders the related service.

The vesting portion of long-term benefits is recognised and provided at balance sheet date, based on the current total cost to the group.

Post-employment benefits

The group operates defined contribution plans for the benefit of its employees, the assets of which are held in separate funds. The plan is funded by payments from employees and the group. The group's contribution to the funds is recognised in the income statement in the year to which it relates.

The group is also a participating employer in two closed defined benefit plans for its pensioner members who retired before 2001. The group does not, however, provide defined employee benefits to its current employees.

Statutory actuarial valuations on the defined benefit plans are performed every three years, using the projected unit credit method. Valuations are performed on a date which coincides with the balance sheet date. Consideration is given to any event that could impact the funds up to the balance sheet date. The surplus or deficit of the plan is the difference between the present value of the funded obligation and the fair value of plan assets. No actuarial surplus is recognised as the group's ability to access the future economic benefit is uncertain. Actuarial losses, if any, are recognised in the income statement as and when they arise.

The group does not provide guarantees in respect of the returns in the defined contribution funds.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The group recognises termination benefits when it has demonstrated its commitment to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If the benefits are due more than 12 months after balance sheet date, they are discounted to present value.

Equity compensation benefits

The various equity compensation schemes operated by the group allow certain senior employees, including executive directors, the option to acquire shares in Kumba over a prescribed period in return for services rendered. These options are settled by means of the issue of shares. Such equity-settled share-based payments are measured at fair value at the date of the grant. The fair value determined at the grant date of the equity-settled share-based payments is charged as employee costs on a straight-line basis over the period that the employees become unconditionally entitled to the options, based on management's estimate of the shares that will vest and adjusted for the effect of non-market-based vesting conditions. These share options are not subsequently revalued.

The Phantom Share Scheme allowed certain senior employees the right to participate in the performance of the Kumba share price, in return for services rendered, through the payment of cash incentives which are based on the market price of the Kumba share. These rights are considered cash-settled and are recognised as a liability at fair value in the balance sheet until the date of settlement. The fair value of these rights is determined at each reporting date and the unrecognised cost amortised to the income statement over the period that the employees provide services to the company.

The fair value of the share options is measured using option pricing modes. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations such as volatility, dividend yield and the vesting period. The fair value takes into account the terms and conditions on which these incentives are granted and the extent to which the employees have rendered services to the balance sheet date.

Principal accounting policies continued

Revenue

Revenue is derived principally from the sale of goods and is measured at the fair value of the consideration received or receivable, which excludes Value-Added Tax, discounts, volume rebates and sales between group companies, and represents the gross value of goods invoiced.

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Export revenues are recorded according to the relevant sales terms, when the risks and rewards of ownership are transferred.

Revenue arising from services is recognised based on the percentage of completion method.

Interest is recognised on the time proportion basis, taking into account the principal outstanding and the effective interest rate over the period to maturity, when it is determined that such income will accrue to the group.

Royalties are recognised in accordance with the substance of the relevant agreements.

Dividends are recognised when the right to receive payment is established.

Borrowing costs

Interest on borrowings directly relating to the financing of qualifying capital projects under construction is added to the capitalised cost of those projects during the construction phase, until such time as the assets are substantially ready for their intended use or sale which, in the case of mining properties, is when they are capable of commercial production. Where funds have been borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the group during the period.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are expensed in the income statement on a straight-line basis over the period of the lease.

Stripping costs

All stripping costs incurred during the production phase of a mine are treated as variable production costs and as a result are included in the cost of inventory produced during the period that the stripping costs are incurred.

Dividends

Dividends payable and the related taxation thereon are recognised by the group when the dividend is declared. These dividends are recorded and disclosed as dividends in the statement of changes in equity. Dividends proposed or declared subsequent to the balance sheet date are not recognised, but are disclosed in the notes to the consolidated financial statements.

Black economic empowerment (BEE) transactions

To the extent that an entity grants shares or share options in a BEE transaction and the fair value of the cash and other assets received is less than the fair value of the shares or share options granted, such difference is charged to the income statement in the period in which the transaction becomes effective. Where the BEE transaction includes service conditions the difference will be charged to the income statement over the period of these service conditions. A restriction on the transfer of the shares or share options is taken into account in determining the fair value of the shares or share options.

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 by origin. 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.

Convenience translation from Rand to US Dollars

The presentation currency of the group is Rand.

Supplementary US Dollar information is provided for convenience only and is not audited. The conversion to US Dollar is performed as follows:

- Assets and liabilities are translated at the closing rate of exchange on balance sheet date.
- Income and expenses are translated at average rates of exchange for the years presented.
- Shareholders' equity, other than attributable earnings for the year, is translated at the closing rate on each balance sheet date.
- The resulting translation differences are included in shareholders' equity.

Key estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The following key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- The provision for environmental rehabilitation and decommissioning is based on management's best estimate of the cost to be incurred. The actual liability for rehabilitation and decommissioning can vary from the estimate and, as a result, the liabilities that are reported can vary if the assessment of the expenditures changes.
- In applying IFRS 2, Share-based Payments, management makes certain judgements in respect of the fair value models to be used in determining the various share-based payment arrangements in respect of employees and special purpose entities. Option pricing models are used to estimate the fair value of the share-based payments. Various assumptions are used in the models. These include, but are not limited to, a dividend yield, risk-free rate and share price volatility.
- Depreciation is based on management's ore reserve estimation. The estimate of the total reserves of Kumba's mines could be materially different from the actual ore mined. The actual usage by the mines may be impacted by changes in the factors used in determining the ore reserves. Any change in management's estimate of the total expected future lives of the mines would impact the depreciation charge as well as the estimated rehabilitation and decommissioning provisions.
- Estimates made in determining the probability of future taxable income, thereby justifying the recognition of deferred tax assets.
- Estimates made in determining the expected future lives of the mines within the group.

Kumba Iron Ore Limited Group Balance sheet
as at 31 December

Rand million	Notes	Audited 2008	Restated 2007
Assets			
Property, plant and equipment	1	**7,911**	5,889
Biological assets	2	**8**	6
Investments in associates and joint ventures	3	**6**	2
Investments held by environmental trust	4	**237**	165
Long-term prepayments	5	**32**	14
Deferred tax assets	11	**11**	9
Non-current assets		**8,205**	**6,085**
Inventories	6	**1,879**	1,310
Trade and other receivables	7	**2,262**	1,531
Current tax asset	13	**547**	–
Cash and cash equivalents	8	**3,810**	952
Current assets		**8,498**	**3,793**
Total assets		**16,703**	**9,878**
Equity and liabilities			
Shareholders' equity		**6,859**	2,736
Minority interest	23	**1,647**	661
Total equity		**8,506**	**3,397**
Liabilities			
Interest-bearing borrowings	9	**977**	1,040
Provisions	10	**384**	339
Deferred tax liabilities	11	**1,990**	1,490
Non-current liabilities		**3,351**	**2,869**
Short-term interest-bearing borrowings	9	**2,881**	2,490
Short-term provisions	10	**310**	–
Trade and other payables	12	**1,655**	1,058
Current tax liabilities	13	**–**	64
Current liabilities		**4,846**	**3,612**
Total equity and liabilities		**16,703**	**9,878**

Kumba Iron Ore Limited Group Income statement

for the year ended 31 December

Rand million	Notes	Audited 2008	Restated 2007
Revenue	14	**21,360**	11,497
Operating expenses	15	**(7,847)**	(5,519)
Operating profit	16	**13,513**	5,978
Finance income	18	**154**	102
Finance costs	18	**(405)**	(270)
Profit before taxation		**13,262**	5,810
Taxation	19	**(4,179)**	(1,807)
Profit for the year		**9,083**	**4,003**
Attributable to:			
Equity holders of Kumba		**7,208**	3,181
Minority interests		**1,875**	822
		9,083	**4,003**
Per share information (cents)	20		
Attributable earnings per share		**2,280**	1,011
Diluted attributable earnings per share		**2,254**	995
Dividend per share (cents)	20		
Interim		**800**	350
Final*		**1,300**	400

* The final dividend was declared subsequent to the year-end and is presented for information purposes only.

Kumba Iron Ore Limited Group Statement of changes in equity

for the year ended 31 December

Rand million	Share capital and share premium (note 21)	Equity-settled share-based payment reserve (note 22)	Foreign currency translation reserve (note 29)	Cash flow hedge accounting reserve	Retained earnings	**Share-holders' equity**	Minority interest (note 23)	**Total equity**
Balance at beginning of year – as previously disclosed	3	182	53	(2)	603	839	216	1,055
Change in accounting policy – borrowing costs	–	–	–	–	1	1	–	1
Balance at beginning of year – restated	3	182	53	(2)	604	840	216	1,056
Shares issued during the year	53	–	–	–	–	53	–	53
Equity-settled share-based payments	–	73	–	–	–	73	17	90
Profit for the year	–	–	–	–	3,181	3,181	822	4,003
(Losses)/gains recognised directly in equity	–	–	(51)	2	–	(49)	(11)	(60)
Foreign currency translation differences	–	–	(10)	–	–	(10)	(2)	(12)
Net cash flow hedge losses transferred from equity	–	–	–	2	–	2	1	3
Taxation effects	–	–	(41)	–	–	(41)	(10)	(51)
Dividends paid	–	–	–	–	(1,362)	(1,362)	(383)	(1,745)
Balance at 31 December 2007 – restated	**56**	**255**	**2**	**–**	**2,423**	**2,736**	**661**	**3,397**
Shares issued during the year	**80**	**–**	**–**	**–**	**–**	**80**	**–**	**80**
Equity-settled share-based payments	**–**	**88**	**–**	**–**	**–**	**88**	**21**	**109**
Profit for the year	**–**	**–**	**–**	**–**	**7,208**	**7,208**	**1,875**	**9,083**
Gains recognised directly in equity	**–**	**–**	**562**	**4**	**–**	**566**	**141**	**707**
Foreign currency translation differences	**–**	**–**	**572**	**–**	**–**	**572**	**141**	**713**
Net cash flow hedge losses transferred from equity	**–**	**–**	**–**	**4**	**–**	**4**	**1**	**5**
Taxation effects	**–**	**–**	**(10)**	**–**	**–**	**(10)**	**(1)**	**(11)**
Dividends paid	**–**	**–**	**–**	**–**	**(3,819)**	**(3,819)**	**(1,051)**	**(4,870)**
Balance at 31 December 2008	**136**	**343**	**564**	**4**	**5,812**	**6,859**	**1,647**	**8,506**

Equity-settled share-based payment reserve

The equity-settled share-based payment reserve comprises the fair value of goods received or services rendered that has been settled through the issuing of shares or share options.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial results of foreign operations to the functional currency of its parent.

Cash flow hedge accounting reserve

The cash flow hedge accounting reserve comprises the effective portion of the cumulative net change in the fair value of derivative financial instruments designated as cash flow hedges where the forecasted transaction has not yet occurred.

Kumba Iron Ore Limited Group Cash flow statement

for the year ended 31 December

Rand million	Notes	Audited 2008	Restated 2007
Cash flows from operating activities			
Cash receipts from customers		**21,098**	10,963
Cash paid to suppliers and employees		**(6,579)**	(5,158)
Cash generated from operations	24	**14,519**	5,805
Net finance costs paid	25	**(401)**	(301)
Taxation paid	13	**(4,311)**	(1,401)
Dividends paid	26	**(3,794)**	(1,353)
		6,013	**2,750**
Cash flows from investing activities			
Additions to property, plant and equipment	27	**(2,563)**	(2,119)
Investment in associates and joint ventures		**(3)**	(2)
Proceeds from disposal of non-current assets		**–**	26
Acquisition of business	28	**–**	–
Translation effects of cash flows of foreign operations	29	**79**	31
		(2,487)	**(2,064)**
Cash flows from financing activities			
Shares issued		**80**	53
Dividends paid to minority shareholders	26	**(1,076)**	(392)
Interest-bearing borrowings raised	9	**3,847**	1,311
Interest-bearing borrowings repaid	9	**(3,519)**	(1,800)
		(668)	**(828)**
Net increase/(decrease) in cash and cash equivalents		**2,858**	(142)
Cash and cash equivalents at beginning of year		**952**	1,094
Cash and cash equivalents at end of year	8	**3,810**	**952**

Kumba Iron Ore Limited Group Notes to the annual financial statements
for the year ended 31 December

Rand million	Land	Mineral properties	Residential buildings	Buildings and infra-structure	Machinery, plant and equipment	Mineral explora-tion, site prepara-tion and develop-ment	Assets under construc-tion	Total
1. Property, plant and equipment								
2008								
Cost								
Balance at beginning of year	64	621	51	238	3,061	325	3,911	8,271
Additions (Refer to note 27)	2	–	18	–	64	–	2,271	2,355
Business combination (Refer to note 28)	–	35	–	–	–	–	–	35
Changes in decommissioning provision	–	–	–	9	4	(2)	–	11
Disposals and scrapping	(2)	–	(1)	(27)	(197)	(69)	–	(296)
Transfers between asset classes	–	–	–	6	4,541	–	(4,547)	–
Exchange differences on translation	–	12	–	–	–	–	–	12
Balance at 31 December 2008	**64**	**668**	**68**	**226**	**7,473**	**254**	**1,635**	**10,388**
Accumulated depreciation								
Balance at beginning of year	–	161	38	107	1,788	288	–	2,382
Depreciation	–	17	2	9	286	18	–	332
Disposals and scrapping	–	–	–	(26)	(189)	(69)	–	(284)
Transfers between asset classes	–	–	–	(4)	4	–	–	–
Balance at 31 December 2008	**–**	**178**	**40**	**86**	**1,889**	**237**	**–**	**2,430**
Impairment of assets								
Impairment charge (Refer to note 28)	–	50	–	–	–	–	–	50
Exchange differences on translation	–	(3)	–	–	–	–	–	(3)
Balance at 31 December 2008	**–**	**47**	**–**	**–**	**–**	**–**	**–**	**47**
Carrying amount at 31 December 2008	**64**	**443**	**28**	**140**	**5,584**	**17**	**1,635**	**7,911**

Rand million	Land	Mineral properties	Residential buildings	Buildings and infra-structure	Machinery, plant and equipment	Mineral exploration, site prepara-tion and develop-ment	Assets under construc-tion	Total
1. Property, plant and equipment continued								
2007								
Cost								
Balance at beginning of year – as previously disclosed	36	621	46	222	2,820	325	1,954	6,024
Change in accounting policy	–	–	–	–	–	–	1	1
Balance at beginning of year – restated	36	621	46	222	2,820	325	1,955	6,025
Additions (Refer to note 27)	36	–	5	6	256	–	1,956	2,259
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**	**3,911**	**8,271**
Accumulated depreciation								
Accumulated depreciation	–	136	37	97	1,623	267	–	2,160
Depreciation	–	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**	**3,911**	**5,889**

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 R171 million (2007: R353 million).

The group generated proceeds from the disposal of items of property, plant and equipment of R0.3 million (2007: R26.0 million).

The estimated replacement value of assets for insurance purposes amounts to R14.3 billion (2007: R8.6 billion).

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

None of the assets are encumbered as security for any of the group's liabilities.

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.

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

Rand million	2008	2007
1. Property, plant and equipment continued		
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	**2,090**	589
Capital expenditure authorised for plant and equipment but not contracted	**8,753**	1,185
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
Capital expenditure authorised for plant and equipment but not contracted	**–**	2

Rand million	Livestock	Game	Total
2. Biological assets			
Balance at beginning of year	**3**	**3**	**6**
Acquisitions	**1**	**–**	**1**
Gains attributable to physical changes and price changes	**–**	**1**	**1**
Balance at 31 December 2008	**4**	**4**	**8**
Balance at beginning of year	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 and are measured at fair value.

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

R'000	2008	2007
3. Investments in associates and joint ventures		
Associates		
Unlisted	**50**	50
Joint ventures		
Unlisted	**5,470**	2,189
Total	**5,520**	**2,239**

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

R'000	Investments	Loans	Total
Associates			
Balance at beginning of year	**50**	**–**	**50**
Interests acquired	**–**	**–**	**–**
Balance at 31 December 2008	**50**	**–**	**50**
Balance at beginning of year	50	–	50
Interests acquired	–	–	–
Balance at 31 December 2007	**50**	**–**	**50**

R'000	2008	2007
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**	2,893
Current assets	**–**	–
Total assets	**2,893**	**2,893**
Shareholders' equity	**2,847**	2,847
Current liabilities	**46**	46
Total equity and liabilities	**2,893**	**2,893**

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

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

R'000	Investments	Loans	Total
3. Investments in associates and joint ventures continued			
Joint ventures			
Balance at beginning of year	–	**2,189**	**2,189**
Increase in loans to joint ventures	–	**3,281**	**3,281**
Balance at 31 December 2008	**–**	**5,470**	**5,470**
Balance at beginning of year	–	337	337
Increase in loans to joint ventures	–	1,852	1,852
Balance at 31 December 2007	**–**	**2,189**	**2,189**

R'000	2008	2007
Income statement information of joint ventures		
Revenue	**102,608**	50,853
Operating expenses	**(15,963)**	(11,297)
Operating profit	**86,645**	39,556
Net financing income	**1,807**	1,903
Profit before taxation	**88,452**	41,459
Taxation	**(386)**	(37)
Profit	**88,066**	**41,422**
Balance sheet information of joint ventures		
Non-current assets	**859**	2,828
Current assets	**23,444**	72,170
Total assets	**24,303**	**74,998**
Shareholders' equity	**376**	1,267
Current liabilities	**23,927**	73,731
Total equity and liabilities	**24,303**	**74,998**
Cash flow information of joint ventures		
Cash flows from operating activities	**(89,550)**	38,865
Cash flows from investing activities	**3,781**	2,000
Foreign currency translations	**34,067**	73
Net (decrease)/increase in cash and cash equivalents	**(51,702)**	**40,938**

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

Rand million	2008	2007
4. Investments held by environmental trust		
Balance at beginning of year	**165**	147
Contributions	**63**	9
Growth in environmental trust	**9**	9
Balance at end of year	**237**	**165**
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 the investments held by environmental trust		
More than 5 years	**237**	165
Currency analysis of investments held by environmental trust		
Rand	**237**	165

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 – 2008	**237**	**237**
Investments held by environmental trust – 2007	165	165

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 6.5% and 11.5% (2007: 6.2% and 10.8%).

Rand million	2008	2007
5. Long-term prepayments		
Prepayments	**32**	14
	32	**14**
Maturity profile of long-term prepayments		
1 to 2 years	**16**	4
2 to 5 years	**16**	10
	32	**14**

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

Rand million	2008	2007
6. Inventories		
Finished products	738	337
Work-in-progress	877	763
Plant spares and stores	262	208
Merchandise	2	2
	1,879	1,310

No inventories are carried at net realisable value or were encumbered during the year.

Rand million	2008	2007
7. Trade and other receivables		
Trade receivables	1,701	1,206
Other receivables	468	312
Derivative financial instruments (Refer to note 30)	93	13
	2,262	1,531

Credit risk

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

92% (2007: 87%) or R1,569 million (2007: R1,045 million) of the total outstanding trade receivables balance of R1,701 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 2008.

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.

Rand million	2008	2007
Trade receivables credit risk exposure by geographical area		
South Africa	39	160
Europe	515	285
Asia	1,147	761
	1,701	1,206
Credit quality of trade receivables		
Not past due	1,690	1,200
Past due 0 to 30 days	11	–
Past due 31 to 60 days	–	5
Past due more than 90 days	–	1
	1,701	1,206

No provision for impairment has been recognised in the current year (2007: R1 million). Based on historic default rates, the group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days.

Rand million	2008	2007
7. Trade and other receivables continued		
Currency analysis of trade receivables		
Rand	**39**	159
US dollar	**1,662**	1,047
	1,701	**1,206**

Fair value of trade receivables

The carrying amount of trade receivables approximate their fair value because of the short period to maturity of these instruments.

Rand million	2008	2007
Other receivables consists of the following:		
Prepayments	**21**	66
Value-Added Tax receivable	**260**	–
Outstanding deposits	**–**	7
Interest receivable	**33**	–
Other	**154**	239
	468	**312**

Rand million	2008	2007
8. Cash and cash equivalents		
Bank balances and cash	**3,688**	937
Cash restricted for use	**122**	15
	3,810	**952**

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.

Rand million	2008	2007
Currency analysis of cash and cash equivalents		
Rand	**3,089**	206
US dollar	**710**	739
Euro	**10**	6
Other	**1**	1
	3,810	**952**

Fair value of cash and cash equivalents

The carrying amount of cash and cash equivalents approximate their fair value because of the short period to 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. R2,875 million is held by Anglo American SA Finance Limited, a subsidiary of the group's ultimate holding company (refer to note 34).

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

Rand million	2008	2007
9. Interest-bearing borrowings		
Non-current interest-bearing borrowings		
Total non-current interest-bearing borrowings	**3,852**	1,052
Short-term portion included in current liabilities	**(2,875)**	(12)
	977	**1,040**
Current interest-bearing borrowings		
Short-term borrowings	**6**	2,478
Short-term portion of non-current interest-bearing borrowings	**2,875**	12
	2,881	**2,490**
Total interest-bearing borrowings	**3,858**	**3,530**
Reconciliation		
Balance at beginning of year	**3,530**	4,019
Loans raised	**3,847**	1,311
Loans repaid	**(3,519)**	(1,800)
Balance at end of year	**3,858**	**3,530**
Maturity profile of interest-bearing borrowings		
Within 1 year	**2,881**	2,490
More than 5 years	**977**	1,040
Balance at end of year	**3,858**	**3,530**

Rand million	Maturity date	Interest rate at 31 Dec 2008 %	Facility	Outstanding balance 2008	Outstanding balance 2007
9. Interest-bearing borrowings continued					
Unsecured loans					
Revolving facility "C" at a floating interest rate of 3 month Jibar + 224 basis points, reset quarterly but payable semi-annually. Maturity date 28 November 2013.	2013	13.58	5,400	**1,000**	–
Revolving facility "A" at a floating interest rate of 3 month Jibar + 100 basis points, reset quarterly but payable semi-annually (2007: 12.07%). Maturity date 28 November 2009.	2009	13.06	2,840	**2,840**	1,040
Revolving facility "B" at a floating interest rate of 3 month Jibar + 70 basis points, reset quarterly but payable semi-annually. This facility was repaid on 28 November 2008 and not renewed.	2008	–	–	**–**	668
Anglo South Africa Capital (Pty) Limited facility at a floating rate of 6 month Jibar + 70 basis points. This facility was repaid on 18 December 2008.	2008	–	750	**–**	750
Call loan facility	2008	–	1,600	**–**	1,060
Interest on revolving facility ''A" – payable 31 March 2009.				**41**	12
Deferred transaction costs				**(23)**	–
Balance at end of year			**10,590**	**3,858**	**3,530**

The Jibar rate at 31 December 2008 was 12.067% (2007: 11.067%).

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 – 2008	**3,858**	**3,881**
Interest-bearing borrowings – 2007	3,530	3,530

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

Rand million	Employee benefits cash-settled share-based payments	Contract for afreightment	Environmental rehabilitation	Decommis-sioning	Total
10. Provisions					
Non-current provisions	**17**	**–**	**305**	**62**	**384**
Current portion of provisions	**5**	**305**	**–**	**–**	**310**
Total provisions	**22**	**305**	**305**	**62**	**694**
Balance at beginning of the year	**32**	**–**	**257**	**50**	**339**
Notional interest	**–**	**–**	**10**	**2**	**12**
Charge to income statement	**–**	**305**	**37**	**–**	**342**
Capitalised to property, plant and equipment	**–**	**–**	**–**	**11**	**11**
Utilised during year	**(7)**	**–**	**–**	**–**	**(7)**
Cash-settled share-based payments (Refer to note 22)	**(3)**	**–**	**–**	**–**	**(3)**
Balance at 31 December 2008	**22**	**305**	**304**	**63**	**694**
Balance at beginning of the year	–	–	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					
Within 1 year	5	305	–	–	310
1 to 2 years	17	–	–	–	17
More than 5 years	–	–	304	63	367
	22	**305**	**304**	**63**	**694**
Estimated undiscounted obligation	**–**	**395**	**803**	**138**	**1,336**

10. Provisions continued

Cash-settled share-based payment (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.

Contract for afreightment

A provision has been raised at 31 December 2008 for an existing freight contract with six voyages extending past 31 December 2008 based on the present value of the contractual cost less current market rates at 31 December 2008.

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 R237 million at 31 December 2008 (2007: R165 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 R86.9 million or a decrease of R66.9 million in the carrying value of the provision.

A change of one year in the expected timing of the commencement of environmental rehabilitation and decommissioning would result in an increase of R14.6 million or a decrease of R14.1 million in the carrying value of the provision.

Change in accounting estimate

At 31 December 2008 management revised the estimate of the amount of the closure cost of Sishen Mine and Thabazimbi Mine. The effect of these changes are detailed below:

Rand million	Environmental rehabilitation	Decommissioning	Total
Amount of the closure cost	64	27	91

The change in estimate in the environmental rehabilitation provision resulted in a decrease in attributable profit for 2008 of R27 million (effect on earnings per share of 8 cents per share) after taking into account taxation of R17 million and minority interest of R6 million. The change in estimate in the decommissioning provision has been capitalised to the related property, plant and equipment (refer to note 1).

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

Rand million	2008	2007
11. Deferred tax		
Deferred tax assets		
Reconciliation		
Balance at beginning of year	9	–
Current period charge per the income statement	2	9
Balance at end of year	**11**	**9**
Expected timing		
Deferred tax assets to be recovered after 12 months	11	9
Deferred tax assets attributable to the following temporary differences:		
Estimated tax losses	10	8
Other	1	1
Total deferred tax assets	**11**	**9**
Deferred tax liabilities		
Reconciliation		
Balance at beginning of year	1,490	485
Rate change	(50)	–
Prior year adjustment	2	473
Current period charge		
Per statement of changes in equity	11	51
Per the income statement	537	481
Balance at end of year	**1,990**	**1,490**
Expected timing		
Deferred tax liabilities to be recovered after 12 months	1,860	1,393
Deferred tax liabilities to be recovered within 12 months	130	97
	1,990	**1,490**
Deferred tax liabilities attributable to the following temporary differences:		
Property, plant and equipment	1,817	1,647
Environmental rehabilitation provision	(19)	(74)
Decommissioning provision	(12)	(12)
Leave pay accrual	(28)	(22)
Other	232	(49)
Total deferred tax liabilities	**1,990**	**1,490**

Rand million	2008	2007
12. Trade and other payables		
Trade payables	**953**	500
Other payables	**592**	480
Leave pay accrual	**101**	77
Derivative financial instruments (Refer to note 30)	**9**	1
	1,655	**1,058**
Currency analysis of trade and other payables		
US dollar	**48**	100
Euro	**102**	–
Rand	**1,503**	958
Other	**2**	–
	1,655	**1,058**

Fair value of trade payables

The carrying amount of trade payables approximate their fair value because of the short period to maturity of these instruments.

Other payables consist mainly of accruals for goods and services received.

Rand million	2008	2007
13. Tax paid		
Amounts unpaid at beginning of year	**64**	603
Income tax per the income statement	**3,692**	862
Translation of foreign operations	**8**	–
	3,764	1,465
Current tax asset/(liability) per balance sheet	**547**	(64)
Tax paid per the cash flow statement	**4,311**	**1,401**
Comprising		
Normal tax		
South Africa	**4,277**	1,357
Foreign	**34**	44
	4,311	**1,401**

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

Rand million	2008	2007
14. Revenue		
Sale of iron ore	**18,888**	10,412
Services rendered – shipping	**2,472**	1,085
	21,360	**11,497**
Sale of iron ore		
Domestic – South Africa	**1,341**	1,349
Export	**17,547**	9,063
Europe	**5,218**	2,999
China	**6,731**	3,199
Rest of Asia	**5,598**	2,865
Services rendered – shipping (Asia)	**2,472**	1,085
	21,360	**11,497**

Rand million	2008	2007
15. Operating expenses		
Operating expenditure by function		
Production costs	**5,103**	3,486
Movement in work-in-progress inventories	**(99)**	(426)
Cost of goods produced	**5,004**	3,060
Movement in finished products inventories	**(190)**	24
Finance gains	**(1,043)**	(40)
Other	**20**	294
Cost of goods sold	**3,791**	3,338
Selling and distribution costs	**1,977**	1,300
Cost of services rendered – shipping	**2,085**	887
Sublease rentals received	**(6)**	(6)
Operating expenses	**7,847**	**5,519**

Rand million	2008	2007
15. Operating expenses continued		
Cost of goods sold comprises:		
Staff costs	**1,482**	1,140
Salaries and wages	**1,245**	917
Equity-settled share-based payments	**109**	96
Cash-settled share-based payments	**(3)**	26
Pension and medical costs	**131**	101
Raw materials and consumables	**1,160**	716
Depreciation of property, plant and equipment	**332**	228
Mineral properties	**17**	25
Residential land and buildings	**2**	1
Buildings and infrastructure	**9**	10
Machinery, plant and equipment	**286**	171
Site preparation and mineral development	**18**	21
Repairs and maintenance	**524**	454
Impairment of mineral properties	**50**	–
General expenses	**625**	1,230
Energy costs	**96**	59
Own work capitalised	**(175)**	(93)
Cost recoveries	**(14)**	6
Movement in inventories	**(289)**	(402)
Cost of goods sold	**3,791**	3,338
Selling and distribution costs	**1,977**	1,300
Distribution costs	**1,824**	1,213
Selling costs	**153**	87
Cost of services rendered – shipping	**2,085**	887
Sublease rentals received	**(6)**	(6)
Operating expenses	**7,847**	**5,519**

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

Rand million	2008	2007
16. Operating profit		
Operating profit includes		
Staff costs	**1,482**	1,140
Depreciation of property, plant and equipment	**332**	228
Reconditioned spares usage	**1**	1
Research and development cost	**1**	1
Operating lease rental expenses		
Property	**19**	9
Equipment	**35**	34
Operating sublease rentals received		
Property	**(6)**	(6)
Net loss/(profit) on disposal or scrapping of property, plant and equipment	**12**	(11)
Auditors' remuneration		
Audit fees	**6**	5
Other services	**1**	1
Directors' emoluments (Refer to remuneration report on page 51)	**10**	6
Executive directors		
– Emoluments received as directors of the company	**6**	5
– Bonuses and cash incentives	**2**	–
Non-executive directors – emoluments as directors of the company	**2**	1

Rand million	2008	2007
17. Finance gains/(losses)		
Finance gains/(losses) recognised in operating profit		
Gains/(losses) on derivative financial instruments		
Realised	**54**	43
Unrealised	**79**	(12)
Foreign currency gains/(losses)		
Realised	**965**	14
Unrealised	**(55)**	(5)
	1,043	**40**

Rand million	2008	2007
18. Finance income/(costs)		
Interest expense	**(555)**	(403)
Notional interest on non-current provisions (Refer to note 10)	**(12)**	(7)
Capitalisation of borrowing costs	**162**	140
Finance costs	**(405)**	(270)
Interest received	**154**	102
Net finance costs	**(251)**	**(168)**

Rand million	2008	2007
19. Taxation		
Income tax expense		
Current tax	**3,190**	628
Deferred tax	**487**	945
STC	**502**	234
	4,179	**1,807**
Charge to the income statement		
South African normal taxation		
Current year	**3,162**	1,122
Prior years	**–**	(473)
Foreign taxation		
Current year	**33**	8
Prior years	**(5)**	(29)
STC	**502**	234
Income tax	**3,692**	862
Deferred tax		
Current year	**535**	472
Rate change	**(50)**	–
Prior years	**2**	473
	4,179	**1,807**

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

%	2008	2007
19. Taxation continued		
Reconciliation of taxation rates		
Taxation as a percentage of profit before taxation	**31.5**	31.1
Taxation effect of:		
Capital profits	**–**	(0.1)
Disallowable expenditure	**(1.9)**	(0.5)
Exempt income	**1.3**	2.0
Capital expenditure	**–**	0.1
Exchange rate difference on tax rate	**0.5**	0.1
STC	**(3.8)**	(4.2)
Prior year (under)/overprovision	**–**	0.5
Rate change	**0.4**	–
Standard tax rate	**28.0**	**29.0**

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.

Rand million	2008	2007
Profit attributable to equity holders of Kumba	**7,208**	3,181
Number of shares		
Weighted average number of ordinary shares in issue	**316,140,923**	314,618,406
Potential dilutive effect of outstanding share options	**3,637,926**	5,041,883
Diluted weighted average number of ordinary shares in issue	**319,778,849**	**319,660,289**

20. Per share information continued

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	2008 Gross adjustment	2008 Net attributable	2007 Gross adjustment	2007 Net attributable
Profit attributable to equity holders of Kumba	**7,208**	**7,208**	3,181	3,181
Net loss/(profit) on disposal and scrapping of property, plant and equipment	**12**	**7**	(14)	(7)
Impairment of property, plant and equipment	**50**	**50**	–	–
Realisation of foreign currency translation reserve	**19**	**11**	(34)	(31)
	7,289	**7,276**	3,133	3,143
Taxation effect of adjustments	**(9)**		1	
Minority interest in adjustments	**(4)**		9	
Headline earnings	**7,276**	**7,276**	**3,143**	**3,143**

Cents	2008	2007
Attributable earnings per share		
Basic	**2,280**	1,011
Diluted	**2,254**	995
Headline earnings per share		
Basic	**2,302**	1,000
Diluted	**2,275**	983
Dividend per share		
Interim	**800**	350
Final	**1,300**	400

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

Number of shares	2008	2007
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	**319,461,421**	317,103,501
Reconciliation of issued shares		
Number of shares at beginning of year	**317,103,501**	313,594,471
Number of ordinary shares issued	**2,357,920**	3,509,030
Number of shares at end of year	**319,461,421**	**317,103,501**
Shares held in reserve reconciliation		
Authorised shares at the beginning of year not issued	**182,896,499**	186,405,529
Shares issued	**(562,510)**	(1,742,840)
Shares held by the Kumba Iron Ore Management Share Trust	**(1,795,410)**	(1,766,190)
Unissued shares	**180,538,579**	**182,896,499**
The unissued shares are under the control of the directors of Kumba until the next annual general meeting.		
Rand million		
Reconciliation of share capital and premium		
Balance at beginning of year	**56**	3
Shares issued – share premium	**166**	96
Shares held by Kumba Iron Ore Management Share Trust	**(86)**	(43)
Balance at end of year	**136**	56
Consists of:		
Share capital	**3**	3
Share premium	**133**	53

Rand million	2008	2007
22. Equity-settled share-based payment reserve		
Balance at beginning of year	**255**	182
Equity-settled share-based payment expense	**88**	73
Employee share incentive schemes		
– Management Share Option Scheme	**13**	27
– Long-Term Incentive Plan (LTIP)	**9**	2
– Share Appreciation Rights Scheme (SARS)	**9**	3
– Envision	**78**	64
Minority interest	**(21)**	(17)
Reclassification from equity-settled to cash-settled	**–**	(6)
Balance at end of year	**343**	**255**

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)
- Deferred Bonus Plan (DBP)
- 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 first anniversary of offer date.
- Additional 20% after second anniversary of offer date.
- Additional 20% after third anniversary of offer date.
- Additional 25% after fourth anniversary of offer date.
- Additional 25% after fifth 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. 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 share options vest on the earlier of:

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

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

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

	Number of share options	Option price range (Rand)
22. Equity-settled share-based payment reserve continued		
Movement in the number of share options granted		
Balance at beginning of year	**1,986,370**	**7.89 – 97.74**
Share options exercised	**(558,680)**	**7.89 – 97.74**
Share options lapsed	**(23,130)**	**23.21 – 43.54**
Balance at 31 December 2008	**1,404,560**	**7.89 – 97.74**
Balance at beginning of year	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**

Number of share options	**2008**	2007
Vesting period of share options granted		
Already vested	**683,410**	682,150
Within 1 year	**330,510**	527,900
1 to 2 years	**239,300**	366,020
2 to 3 years	**151,340**	251,620
3 to 4 years	**–**	158,680
	1,404,560	**1,986,370**

Range of exercise prices	Weighted average option price (Rand)	Number of share options	Expiry date
(Rand)			
21.75 – 31.71	24.23	167,410	2009
14.15 – 40.18	25.18	79,550	2010
20.69 – 40.18	26.41	287,570	2011
30.91 – 67.26	45.40	357,990	2012
68.53 – 97.74	82.25	512,040	2013
		1,404,560	
Share options held by Exxaro Resources employees in Kumba			
(Rand)			
22.04 – 41.66	23.92	217,340	2009
14.98 – 97.74	54.03	2,819,000	2010
		3,036,340	

Rand million	2008	2007
22. Equity-settled share-based payment reserve continued		
Share-based payment expense recognised	**13**	28
Unrecognised share-based payment expense	**5**	17

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 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.

		After unbundling:	
	Before 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			
(Rand)			
10.62 to 15.49	12.01	148,080	2009
6.91 to 47.73	27.95	1,116,990	2010
12.90	12.90	4,270	2011
19.62	19.62	2,150	2012
		1,271,490	

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

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22. Equity-settled share-based payment reserve continued

Phantom Share Option Scheme

As a result of restrictions related to the empowerment transaction of Kumba Resources, certain past and present 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.

	Offer date	Offer price	Number of share options
Phantom share options held by Kumba employees in Kumba	22/4/2005	40.18	9,900

A total of 6,900 phantom share options were exercised during 2008 at a volume weighted average price of R336.81. No new options have 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 to date 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’ service 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	Option price range (Rand)
22. Equity-settled share-based payment reserve continued		
Movement in the number of conditional awards granted – 2007		
Balance at beginning of year	**85,376**	**–**
Conditional awards issued	**415**	**–**
Conditional awards lapsed	**(7,002)**	**–**
Balance at 31 December 2008	**78,789**	**–**
Balance at beginning of year	–	–
Conditional awards issued	91,662	–
Conditional awards lapsed	(6,286)	–
Balance at 31 December 2007	**85,376**	**–**

	Weighted average option price (Rand)	Number of conditional awards	Expiry date
Vesting period of conditional awards granted			
2 to 3 years	–	78,789	2010

Rand million	**2008**	2007
Share-based payment expense recognised	**1**	2
Unrecognised share-based payment expense	**2**	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.

	2008	2007
Fair value assumptions		
Share price on date of grant (Rand)	**126.50**	126.50
Weighted average exercise price (Rand)	**–**	–
Annualised expected volatility (%)	**37.2**	37.2
Expected share option life (years)	**3.0**	3.0
Expected dividend yield (%)	**2.65**	2.65
Risk-free interest rate (%)	**7.70**	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.

Kumba Iron Ore Limited Group Notes to the annual financial statements continued
for the year ended 31 December

Rand million	Number of conditional awards	Option price range (Rand)
22. Equity-settled share-based payment reserve continued		
Movement in the number of conditional awards granted – 2008		
Balance at beginning of year	**–**	–
Conditional awards issued	**232,908**	–
Conditional awards lapsed	**(11,012)**	–
Balance at 31 December 2008	**221,896**	**–**

	Weighted average option price (Rand)	Number of conditional awards	Expiry date
Vesting period of conditional awards granted			
3 to 5 years	–	221,896	2011

Rand million	2008	2007
Share-based payment expense recognised	**8**	–
Unrecognised share-based payment expense	**21**	–

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.

	2008
Fair value assumptions	
Share price on date of grant (Rand)	**332.06**
Weighted average exercise price (Rand)	**–**
Annualised expected volatility (%)	**38.95**
Expected share option life (years)	**3**
Expected dividend yield (%)	**5.81**
Risk-free interest rate (%)	**8.96**

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.

22. Equity-settled share-based payment reserve continued

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' service 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 – 2007		
Balance at beginning of year	**288,450**	**124.27 – 207.56**
Rights issued	**2,111**	**332.06**
Rights exercised	**(2,500)**	**124.27**
Rights lapsed	**(17,920)**	**124.27**
Balance at 31 December 2008	**270,141**	**124.27 – 332.06**
Balance at beginning of year	–	–
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			
More than 5 years	124.27 – 332.06	270,141	2014

Rand million	**2008**	2007
Share-based payment expense recognised	**4**	3
Unrecognised share-based payment expense	**4**	9

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

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22. Equity-settled share-based payment reserve continued

The share options 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.

	2008	2007
Fair value assumptions		
Share price on date of grant (Rand)	**126.50**	126.50
Weighted average exercise price (Rand)	**124.27**	124.27
Annualised expected volatility (%)	**37.2**	37.2
Expected share option life (years)	**4.5**	5.5
Expected dividend yield (%)	**2.66**	2.66
Risk-free interest rate (%)	**7.66**	7.66

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

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

	Number of rights	Exercise price range (Rand)
Movement in the number of rights granted – 2008		
Balance at beginning of year	**–**	**–**
Rights issued	**231,320**	**247.30 – 332.06**
Rights lapsed	**(10,930)**	**332.06**
Balance at 31 December 2008	**220,390**	**247.30 – 332.06**

	Exercise price range (Rand)	Number of rights	Expiry date
Vesting period of rights granted			
More than 5 years	247.30 – 332.06	220,390	2014

Rand million	2008	2007
Share-based payment expense recognised	**5**	–
Unrecognised share-based payment expense	**12**	–

The share options 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.

22. Equity-settled share-based payment reserve continued

	2008	
Fair value assumptions		
Share price on date of grant (Rand)	**332.06**	
Weighted average exercise price (Rand)	**332.06**	
Annualised expected volatility (%)	**36.90**	
Expected share option life (years)	**5.5**	
Expected dividend yield (%)	**6.30**	
Risk-free interest rate (%)	**9.12**	

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

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

Deferred Bonus Plan (DBP)

The purpose for the introduction of the Kumba Deferred Bonus Plan is to recognise contributions made by selected employees and to provide for an incentive for their continuing relationship with the group by providing them with the opportunity of receiving shares in Kumba. The scheme is intended as an incentive to ensure that the group attracts and retains the core competencies required for formulating and implementing the group's business strategies.

A participant may sacrifice up to 50% of his post-tax bonus he is entitled to under the current short-term incentive scheme in exchange for Kumba shares at the ruling market price. The pledged shares are then held in trust until their vesting date, which is three years after the offer date. The participant will beneficially own the pledged shares in the trust and will consequently receive dividends. The participant will also be entitled to the pledged shares if he leaves the employment of Kumba. At vesting date, provided that the participant is still employed by Kumba, the company makes an additional award of shares by matching the shareholding on a one-for-one basis. The participant is not required to pay for the offer of the matching award. Should the participant have traded with his pledged shares during the vesting period, the participant will not be eligible for a matching award on the traded shares. On vesting date, the participant will become unconditionally entitled to both the original pledged shares as well as the matching award, which will then be released to the participant.

Movement in the number of pledged shares	Number of pledged shares	Exercise price range (Rand)
Balance at beginning of year	–	–
Shares pledged	1,872	232.75 – 342.25
Pledged shares lapsed	(294)	340.00
Balance at 31 December 2008	**1,578**	

Vesting period of pledged shares	Exercise price range (Rand)	Number of pledged shares	Expiry date
2 to 3 years	232.75 – 342.25	1,578	2011

R'000	**2008**	2007
Share-based payment expense recognised	**118**	–
Unrecognised share-based payment expense	**321**	–

The shares awarded under the DBP are considered equity-settled. The share-based payment expense is measured using the fair value of the shares issued under the DBP which was determined using the Black-Scholes option pricing model.

Kumba Iron Ore Limited Group Notes to the annual financial statements continued
for the year ended 31 December

22. Equity-settled share-based payment reserve continued

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 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		
Balance at beginning of year	**14,486,441**	**22.84**
Share options issued	**1,385,904**	**22.84**
Share options lapsed	**(695,141)**	**22.84**
Balance at 31 December 2008	**15,177,204**	**22.84**
Balance at beginning of year	–	–
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		
3 years	15,177,204	2011

Rand million	**2008**	2007
Share-based payment expense recognised	**78**	78
Unrecognised share-based payment expense	**218**	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.

	2008	2007
22. Equity-settled share-based payment reserve continued		
Fair value assumptions		
Share price on date of grant (Rand)	**39.48**	39.48
Weighted average exercise price (Rand)	**22.84**	22.84
Annualised expected volatility (%)	**45.00**	37.00
Expected share option life (years)	**4.0**	5.0
Expected dividend yield (%)	**5.25**	3.25
Risk-free interest rate (%)	**8.00**	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	2008	2007
23. Minority interest		
Balance at beginning of year	**661**	216
Profit for the year	**1,875**	822
Exxaro Resources	**1,835**	804
SIOC Community Development SPV	**8**	7
Envision	**32**	11
Dividends paid	**(1,051)**	(383)
Exxaro Resources	**(1,036)**	(373)
SIOC Community Development SPV	**(8)**	(7)
Envision	**(32)**	(12)
Recoupment of Envision dividend	**25**	9
Interest in movement in equity reserves	**162**	6
Equity-settled share-based payment reserve	**21**	17
Foreign currency translation reserve	**141**	(2)
Cash flow hedge accounting reserve	**1**	1
Taxation effects	**(1)**	(10)
Balance at end of year	**1,647**	**661**

The recoupment of the Envision dividend of R25 million arises from Sishen Iron Ore Company's participation as income beneficiary in the SIOC Employee Share Participation Scheme (Envision).

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

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Rand million	2008	2007
24. Cash generated by operations		
Operating profit	**13,513**	5,978
Adjusted for:		
Depreciation of property, plant and equipment	**332**	228
Movement in provisions	**333**	140
Foreign currency revaluations and fair value adjustments	**(27)**	(7)
Reconditionable spares used	**1**	1
Loss/(profit) on disposal of property, plant and equipment	**12**	(11)
Movement in non-current financial assets and prepayments	**(96)**	(16)
Capitalisation of operating profit to machinery, plant and equipment	**370**	–
Impairment of property, plant and equipment	**50**	–
Equity-settled share-based payment expenses	**109**	96
Cash-settled share-based payment expenses	**(3)**	26
Cash flows from operations	**14,594**	6,435
Working capital movements		
Increase in inventories	**(357)**	(562)
Increase in trade and other receivables	**(262)**	(534)
Increase in trade and other payables	**544**	466
	14,519	**5,805**

Rand million	2008	2007
25. Net finance costs paid		
Net financing costs as per income statement	**(251)**	(168)
Less: Interest adjustment on non-current provisions	**12**	7
Less: Capitalisation of borrowing costs	**(162)**	(140)
	(401)	**(301)**

Rand million	2008	2007
26. Dividends paid		
Dividends paid		
Dividends per the statement of changes in equity	**(3,819)**	(1,362)
Recoupment of Envision dividend (Refer to note 23)	**25**	9
	(3,794)	**(1,353)**

Rand million	2008	2007
26. Dividends paid continued		
Dividends paid to minority shareholders		
Dividends per the statement of changes in equity	**(1,051)**	(383)
Recoupment of Envision dividend (Refer to note 23)	**(25)**	(9)
	(1,076)	**(392)**

Rand million	2008	2007
27. Additions to property, plant and equipment		
Replacement of property, plant and equipment	**(791)**	(349)
Reconditionable spares	**(50)**	(17)
Investments to maintain operations	**(841)**	(366)
Investment to expand operations	**(1,722)**	(1,753)
Additions per the cash flow statement	**(2,563)**	(2,119)
Borrowing costs capitalised	**(162)**	(140)
Cash flows relating to the Sishen Expansion Project (SEP) capitalised to machinery, plant and equipment	**370**	–
	(2,355)	**(2,259)**

28. Acquisition of businesses

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, to acquire 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 at 31 December 2007. On 1 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. The loss for the year related to these entities since the acquisition date included in the consolidated profit for the year was R46 million.

Rand million	2008
Cash paid on acquisition of business	**35**
Pre-acquisition reserves acquired	**–**
Purchase consideration	**35**
Fair value of net assets acquired:	
Property, plant and equipment – mineral properties	**35**
Purchase consideration	**35**
Cash paid on acquisition of business	**35**
Decrease in prepayment	**(35)**
Net cash outflow on acquisition of business	**–**

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

28. Acquisition of business continued

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.

Impairment of property, plant and equipment

Based on the latest exploration results the mineral properties have been impaired to its recoverable amount as at 31 December 2008 (R50 million).

Rand million	2008	2007
29. Translation effects of cash flows of foreign operations		
Balance at beginning of year	**(2)**	(24)
Reclassification of at acquisition reserve	**–**	(29)
Closing balance	**564**	2
Movement for the year	**562**	(51)
Unrealised gains in relation to foreign transactions	**2**	1
Transfer to/(from) foreign currency translation reserve	**9**	(55)
Less: Arising on translation of foreign entities:	**635**	148
Inventories	**211**	1
Accounts receivable	**489**	23
Financial assets	**4**	–
Accounts payable	**(77)**	16
Taxation paid	**(7)**	(1)
Property, plant and equipment acquired	**15**	–
Long-term loans	**–**	66
Share capital	**–**	43
Minority interest	**141**	(12)
	79	**31**

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, coordinates access to domestic and international financial markets, and manages the financial risks relating to the group's operations.

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	**2008**	2007
The carrying amount of financial assets represents the maximum exposure to credit risk:		
Investments held by the environmental trust (Refer to note 4)	**237**	165
Trade receivables (Refer to note 7)	**1,701**	1,206
Derivative financial instruments (Refer to note 7)	**93**	13
Cash and cash equivalents (Refer to note 8)	**3,810**	952
	5,841	**2,336**

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.

Kumba Iron Ore Limited Group Notes to the annual financial statements continued
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30. Financial instruments continued

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
2008				
Financial assets				
Loans and receivables				
Investments held by the environmental trust (Refer to note 4)	**–**	**–**	**237**	**237**
Trade receivables (Refer to note 7)	**1,701**	**–**	**–**	**1,701**
Cash and cash equivalents (Refer to note 8)	**3,810**	**–**	**–**	**3,810**
Derivative financial instruments	**93**	**–**	**–**	**93**
Financial liabilities				
Interest-bearing borrowings (Refer to note 9)	**(2,881)**	**–**	**(977)**	**(3,858)**
Trade payables (Refer to note 12)	**(953)**	**–**	**–**	**(953)**
Derivative financial instruments	**(9)**	**–**	**–**	**(9)**
	1,761	**–**	**(740)**	**1,021**
2007				
Financial assets				
Loans and receivables				
Investments held by the environmental trust (Refer to note 4)	–	–	165	165
Trade receivables (Refer to note 7)	1,206	–	–	1,206
Cash and cash equivalents (Refer to note 8)	952	–	–	952
Derivative financial instruments	13	–	–	13
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)**

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				
Related to future commitments for the import of capital equipment				
2008				
Euro – FECs	**6**	**84**	**79**	**(5)**
		84	**79**	**(5)**
2007				
US Dollar – FECs	1	6	6	–
Euro – FECs	2	18	17	(1)
Japanese Yen – FECs	262	16	16	–
		40	**39**	**(1)**

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

	Foreign amount (m)	Market related value (Rand m)	Contract value (Rand m)	Recognised fair value gains/(losses) (Rand m)
30. Financial instruments continued				
Derivative instruments – held for trading				
2008				
Related to the repatriation of foreign cash receipts				
US Dollar – FECs	**55**	**517**	**595**	**78**
Related to future commitments for the import of capital equipment				
US Dollar – FECs	**5**	**43**	**43**	**–**
Euro – FECs	**2**	**21**	**20**	**(1)**
		581	**658**	**77**
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	–
		552	**565**	**13**

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 2008 of US$1: R8.25 (US$1: R7.03 for the year ended 31 December 2007) 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: R9.37 (US$1: R6.81 as at 31 December 2007).

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.

	Impact on profit and loss		Impact on equity	
Rand million	**Increase**	**Decrease**	**Increase**	**Decrease**
2008				
US Dollar	**24**	**(24)**	**17**	**(17)**
2007				
US Dollar	57	(57)	40	(40)

30. Financial instruments continued

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 borrowings 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	
Rand million	**Increase**	**Decrease**	**Increase**	**Decrease**
2008				
Floating interest instruments	**19**	**(19)**	**14**	**(14)**
2007				
Floating interest instruments	14	(14)	10	(10)

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:

Rand million	**2008**	2007
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**	**3,295**

Through strong cash flow generation, the net debt position of Kumba has reduced from R2.6 billion in 2007 to R48 million in 2008.

It is the intention of management to fund Kumba's capital expansion projects through debt financing. To 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 2013.

The maximum debt in terms of current covenants is R5.5 billion. Kumba was not in breach of any of its covenants during the current year, with interest cover at 33 times earnings (2007: 19 times).

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

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

31. Employee benefits

Retirement funds

Independent funds provide pension and other benefits for all permanent employees and their dependants. At the end of 2008 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 to new entrants.
- Mittal Steel South Africa Pensioenfonds (formerly the Yskor Pensioenfonds), operating as a defined benefit fund. This fund is closed to new entrants.

In compliance with the Pension Fund Act, after the unbundling of Kumba Resources Limited, the members' funds of Sishen Iron Ore Company 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:

	2008		2007
	Working members (number)	**Employer contributions**	Employer contributions
Kumba Iron Ore Selector Pension and Provident Funds	**1,674**	**46**	32
Iscor Employees' Provident Fund	**3,497**	**31**	25
Total	**5,171**	**77**	**57**

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 R52 million (2007: R44 million). The group has no obligation to fund medical aid contributions for current or retired employees.

Rand million	2008	2007
32. Guarantees and legal proceedings		
Guarantees		
Environmental trust closure liability	**13**	13
Bank guarantees for property acquisitions	**77**	–
	90	**13**

Legal proceedings

Lithos Corporation (Pty) Limited (Lithos) increased its claim for damages brought against Kumba from US$196 million to US$421 million during 2007. 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 provisionally allocated, being 8 March 2010 to 2 April 2010. No liability has been recognised for this litigation.

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. The arbitration process will commence during the third quarter of 2009. These proceedings are confidential in nature.

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

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

Rand million	2008	2007
33. Commitments		
Operating lease commitments		
The future minimum lease payments under non-cancellable operating leases are as follows:		
Property		
Within 1 year	**18**	6
Between 1 and 2 years	**18**	–
2 to 5 years	**81**	17
More than 5 years	**11**	–
	128	**23**
Plant and equipment		
Within 1 year	**7**	–
Between 1 and 2 years	**8**	–
2 to 5 years	**–**	21
More than 5 years	**–**	–
	15	**21**
Computer equipment		
Within 1 year	**1**	2
2 to 5 years	**–**	10
	1	**12**
Total operating lease commitments	**144**	**56**
Commitments – shipping services		
The future commitments under contracts for afreightment are as follows:		
Within 1 year	**395**	448
2 to 5 years	**–**	250
	395	**698**

34. Related party transactions

During the year the company and its subsidiaries, in the ordinary course of business, entered into various sales and purchases 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 (53.22%) and Stimela Mining Holdings (Pty) Limited (9.73%).

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 51 to 58.

Shareholders

The principal shareholders of the company are detailed under "Shareholder analyses" on page 134.

Material related party transactions

Rand million	2008	2007
Purchase of goods and services		
Guarantees		
Holding company	94	57
Fellow subsidiaries	1	–
Associates and joint ventures	103	50
	198	**107**
Sale of goods and services		
Holding company	22	7
Fellow subsidiaries	18	–
Associates and joint ventures	–	5
	40	**12**

Kumba Iron Ore Limited Group Notes to the annual financial statements continued

for the year ended 31 December

Rand million	2008	2007
34. Related party transactions continued		
Amounts owing to related parties (after eliminating intercompany balances)		
Holding company	**17**	753
Trade payables	**8**	2
Derivative financial instruments	**9**	1
Borrowings	**–**	750
	17	**753**
Amounts owing by related parties (after eliminating intercompany balances)		
Holding company	**135**	14
Trade receivables	**9**	1
Interest receivable	**33**	–
Derivative financial instruments	**93**	13
Associates and joint ventures – trade payables	**3**	50
Cash and cash equivalents	**2,875**	–
Loans to associates and joint ventures	**5**	2
	3,018	**66**

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.

Secondary reporting format – Geographical segments

Rand million	South Africa	Europe	Asia	Other	Total
2008					
Revenue					
Sales to external customers	**1,341**	**5,218**	**14,801**	**–**	**21,360**
Other segment information					
Segment assets	**14,272**	**687**	**1,742**	**2**	**16,703**
Segment liabilities	**7,832**	**–**	**364**	**1**	**8,197**
Capital expenditure	**2,562**	**–**	**–**	**1**	**2,563**
2007					
Revenue					
Sales to external customers	1,349	2,999	7,149	–	11,497
Other segment information					
Segment assets	8,196	590	1,045	47	9,878
Segment liabilities	6,351	8	121	1	6,481
Capital expenditure	2,119	–	–	–	2,119

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.

Kumba Iron Ore Limited Company Balance sheet

as at 31 December

Rand million	Notes	2008	2007
Assets			
Long-term financial assets	1	**458**	458
Investments in subsidiaries	2	**384**	108
Deferred tax assets	3	**8**	12
Non-current assets		**850**	**578**
Other receivables		**17**	15
Current tax assets		**7**	–
Cash and cash equivalents	4	**40**	74
Current assets		**64**	**89**
Total assets		**914**	**667**
Equity and liabilities			
Share capital and premium	5	**222**	99
Reserves		**659**	531
Total equity		**881**	**630**
Liabilities			
Loans from subsidiary companies	2	**–**	6
Provisions	6	**13**	24
Non-current liabilities		**13**	**30**
Other payables		**20**	7
Current liabilities		**20**	**7**
Total equity and liabilities		**914**	**667**

Kumba Iron Ore Limited Company
Income statement
for the year ended 31 December

Rand million	Notes	2008	2007
Net operating income/(expenses)	7	1	(34)
Operating profit/(loss)		1	(34)
Finance income		59	58
Income from investments	8	3,847	1,384
Profit before taxation		3,907	1,408
Income tax	9	(4)	12
Profit for the year		3,903	1,420

Kumba Iron Ore Limited Company Cash flow statement

for the year ended 31 December

Rand million	Notes	2008	2007
Cash flows from operating activities			
Cash utilised by operations	10	**(9)**	(23)
Finance income		**59**	58
Income from investments		**3,847**	1,384
Taxation paid	11	**(7)**	(39)
Dividends paid		**(3,805)**	(1,355)
		85	**25**
Cash flows from investing activities			
Net increase in loans to subsidiaries		**(242)**	(47)
		(242)	**(47)**
Cash flows from financing activities			
Share capital issued	5	**123**	96
		123	**96**
Net (decrease)/increase in cash and cash equivalents		**(34)**	74
Cash and cash equivalents at beginning of year		**74**	–
Cash and cash equivalents at end of year	4	**40**	**74**

Kumba Iron Ore Limited Company Statement of changes in equity

for the year ended 31 December

Rand million	Share capital	Share premium	Equity-settled share-based payment	Retained earnings	Total
Balance at beginning of year	3	–	14	418	435
Shares issued during the year	–	96	–	–	96
Equity-settled share-based payments	–	–	34	–	34
Profit for the year	–	–	–	1,420	1,420
Dividends paid	–	–	–	(1,355)	(1,355)
Balance at 31 December 2007	**3**	**96**	**48**	**483**	**630**
Shares issued during the year	**–**	**123**	**–**	**–**	**123**
Equity-settled share-based payments	**–**	**–**	**30**	**–**	**30**
Profit for the year	**–**	**–**	**–**	**3,903**	**3,903**
Dividends paid	**–**	**–**	**–**	**(3,805)**	**(3,805)**
Balance at 31 December 2008	**3**	**219**	**78**	**581**	**881**

Kumba Iron Ore Limited Company Notes to the annual financial statements

for the year ended 31 December

Rand million	2008	2007
1. Long-term financial assets		
Investment in SIOC Community Development SPV (Pty) Limited	**458**	458

Fully paid up redeemable preference shares at the option of the issuer.

Rand million	2008	2007
2. Investments in subsidiaries		
Reflected as non-current assets		
Shares at cost	**3**	3
Share-based payment expenditure*	**58**	32
Long-term loans to subsidiaries	**323**	73
Reflected as non-current liability	**384**	108
Long-term loans from subsidiaries	**–**	(6)
Net investments in subsidiaries	**384**	**102**

* Arising from the accounting for share-based payment transactions in terms of IFRIC 11, IFRS 2 Group and Treasury share transactions.

Investments in subsidiaries are accounted for at cost.

For further details of interest in significant subsidiaries, refer annexure 1.

Rand million	2008	2007
3. Deferred tax asset		
Balance at beginning of year	**12**	–
Current year charge per the income statement	**(4)**	12
Balance at end of year	**8**	**12**
Deferred tax asset attributable to the following temporary differences:		
Share-based payments	**4**	5
Estimated tax losses	**7**	6
Other	**(3)**	1
Total deferred tax assets	**8**	**12**

Rand million	2008	2007
4. Cash and cash equivalents		
Cash	**40**	74
Currency analysis of cash and cash equivalents		
Rand	**40**	74

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.

Fair value of cash and cash equivalents
The carrying amount of cash and cash equivalents approximate their fair value because of the short period to maturity of these instruments.

Number of shares	2008	2007
5. Share capital and share premium		
Authorised		
500,000,000 ordinary shares of R0.01 each	**500,000,000**	500,000,000
Issued		
319,461,421 (2007: 317,103,501) ordinary shares of R0.01 each	**319,461,421**	317,103,501
Reconciliation of issued shares		
Number of shares at beginning of year	**317,103,501**	313,594,471
Number of ordinary shares issued	**2,357,920**	3,509,030
Number of shares at end of year	**319,461,421**	**317,103,501**

For further detail refer to the group annual financial statements.

Rand million	2008	2007
Reconciliation of share capital and premium		
Share capital	**3**	3
Share premium	**219**	96
	222	**99**

Kumba Iron Ore Limited Company Notes to the annual financial statements continued

for the year ended 31 December

Rand million	Cash-settled share-based payments
6. Provisions	
Balance at beginning of year	**24**
Amounts utilised against provision	**(2)**
Cash-settled share-based payments	**(9)**
Balance at 31 December 2008	**13**
Cash-settled share-based payments	24
Balance at 31 December 2007	**24**
Expected timing of future cash flows	
1 to 2 years	13

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 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.

Rand million	2008	2007
7. Operating (expenses)/income		
Cost by type		
Salaries and wages	**(20)**	(13)
Share-based payments	**6**	(20)
Pension and medical costs	**(1)**	(1)
Foreign currency revaluations and fair value adjustments	**13**	–
General expenses	**(7)**	(10)
Cost recoveries	**10**	10
	1	**(34)**
The above costs are stated after including:		
Directors' emoluments	**10**	6
Executive directors		
– Emoluments received as directors of the company	**6**	5
– Bonuses and cash incentives	**2**	–
Non-executive directors – emoluments as directors of the company	**2**	1

Rand million	2008	2007
8. Income from investments		
Dividends received from subsidiaries	**3,847**	1,384

Rand million	2008	2007
9. Taxation		
Charge to income		
Deferred tax	**(4)**	12
Total	**(4)**	**12**

%	2008	2007
Reconciliation of taxation rates		
Taxation as a percentage of profit before taxation	**0.1**	(0.8)
Taxation effect of		
Exempt income	**27.9**	29.5
Other	**–**	0.3
Standard tax rate	**28.0**	**29.0**

Rand million	2008	2007
10. Cash utilised by operations		
Operating profit/(loss)	**1**	(34)
Adjusted for:		
Foreign currency revaluations and fair value adjustments	**(13)**	–
Movement in provisions	**(11)**	–
Share-based payment expense	**3**	20
Cash flows utilised in operations	**(20)**	(14)
Working capital movements		
Increase in other receivables	**(2)**	(13)
Increase in other payables	**13**	4
	(9)	**(23)**

Rand million	2008	2007
11. Normal taxation paid		
Amounts unpaid at beginning of year	**–**	39
Amount paid during the year	**(7)**	(39)
Current tax asset at end of year	**7**	**–**

Annexure 1: Investments in associates, joint ventures and other investments

for the year ended 31 December

Rand '000	Nature of business[1]	Number of shares held	Percentage holding	Investment at cost	Group		Company	
					Loan balance 2008	Loan balance 2007	**Loan balance 2008**	Loan balance 2007
Associates								
Unlisted								
Manganore Iron Mining Limited[2]	A	25,000	50%	50	**–**	–	**–**	–
Incorporated joint ventures								
Unlisted								
Pietersburg Iron Company (Pty) Limited	A	4,000	50%	3,740	**5,470**	1,682	**–**	–
Safore (Pty) Limited[2]	B	400	40%	–	**–**	–	**–**	–
Sishen Shipping (Pty) Limited[2]	B	400	40%	–	**–**	–	**–**	–
Trans Orient Ore Supplies (Pty) Limited	C	2,000	50%	–	**–**	–	**–**	–
Sibelo Resources Development (Pty) Limited	D	1	50%	–	**–**	507	**–**	–
				3,740	**5,470**	**2,189**		
Other investments								
SIOC Community Development SPV (Pty) Limited[3]	E	458	100%	–	**–**	–	**474,933**	473,347
Directors' valuation of investments at 31 December								
Unlisted investments in associates				50	**–**	–	**–**	–
Unlisted investments in joint ventures				3,740	**5,470**	2,189	**–**	–
Other investments				–	**–**	–	**474,933**	473,347

The financial year-end for Manganore Iron Mining Limited and Sibelo Resources Development (Pty) Limited is 30 June. Where the financial year-ends are not co-terminous with that of the group, financial information has been obtained from published information or management accounts as appropriate.

1 A – Mining, B – Shipping charter, C – Iron ore merchant, D – Exploration, E – Community development
2 Dormant
3 Fully paid up redeemable preference shares at the option of the issuer.

All above entities are incorporated in South Africa other than Trans Orient Ore Supplies (Pty) Limited which is incorporated in Hong Kong.

Annexure 2: Investments in subsidiaries

for the year ended 31 December

Rand	Country of incorporation[1]	Nature of business[2]	Percentage holding	Nominal issued capital	2008 Investment at cost	2008 Loans to/(from) subsidiaries
Direct investments						
Kumba Holdings West Africa BV	NE	E	100%	173,035	**173,035**	**116,897,935**
Sishen Iron Ore Company (Pty) Limited	RSA	A	74%	100	**3,008,810**	**205,674,201**
Indirect investments						
Groler Investments Limited	SWL	E	100%	258,958	–	–
Kumba Hong Kong Limited	HK	B	100%	832	–	–
Kumba Hong Kong Shipping Limited	HK	C	100%	816	–	–
Kumba International BV	NE	B	100%	10,806,511	–	–
Kumba International Trading BV	NE	B	100%	142,487	–	–
Kumba Investment West Africa BV	NE	E	100%	173,034	–	–
Kumba Investments West Africa SA	SE	D	100%	142,925	–	–
Kumba Iron Ore Holdings BV	NE	E	100%	154,654	–	–
Kumba Investments Guinea BV	NE	D	100%	151,511	–	–
Kumba West Africa SARL	SE	D	100%	14,290	–	–
Sishen South Mining (Pty) Limited	RSA	A	100%	1	–	–
Downs Holding BV	NE	F	100%	119,209	–	–
Mineco Limited	MAU	F	100%	21	–	–
Oreco Leasing Limited	MAU	F	75%	17	–	–
Vulcan Leasing Limited	MAU	F	100%	19	–	–
Total investments in subsidiaries					**3,181,845**	**322,572,136**

	Rand million
Aggregate attributable after tax profits/(losses) of subsidiaries:	
Profits	9,178
Losses	(107)

1 RSA – South Africa, NE – Netherlands, HK – Hong Kong, SWL – Switzerland, MAU – Mauritius, SE – Senegal
2 A – Mining, B – Iron ore marketing and sales, C – Shipping charter, D – Exploration, E – Investment holding, F – Dormant

Annexure 3: Balance sheet – US Dollar convenience translation
as at 31 December

US Dollar million	2008	Restated 2007
Assets		
Property, plant and equipment	**844**	866
Biological assets	**1**	1
Investments in associates and joint ventures	**1**	–
Investments held by environmental trust	**25**	24
Long-term financial assets and prepayments	**3**	2
Deferred tax assets	**1**	1
Non-current assets	**875**	**894**
Inventories	**201**	193
Trade and other receivables	**241**	225
Current tax asset	**58**	–
Cash and cash equivalents	**407**	140
Current assets	**907**	**558**
Total assets	**1,782**	**1,452**
Equity and liabilities		
Shareholders' equity	**732**	402
Minority interest	**176**	97
Total equity	**908**	**499**
Liabilities		
Interest-bearing borrowings	**104**	153
Provisions	**41**	50
Deferred tax liabilities	**212**	219
Non-current liabilities	**357**	**422**
Interest-bearing borrowings	**307**	366
Trade and other payables	**177**	156
Current tax liabilities	**–**	9
Short-term provisions	**33**	–
Current liabilities	**517**	**531**
Total equity and liabilities	**1,782**	**1,452**
Exchange rate		
Translated at closing Rand/US Dollar exchange rate	**9.37**	6.81

Annexure 4: Income statement – US Dollar convenience translation
for the year ended 31 December

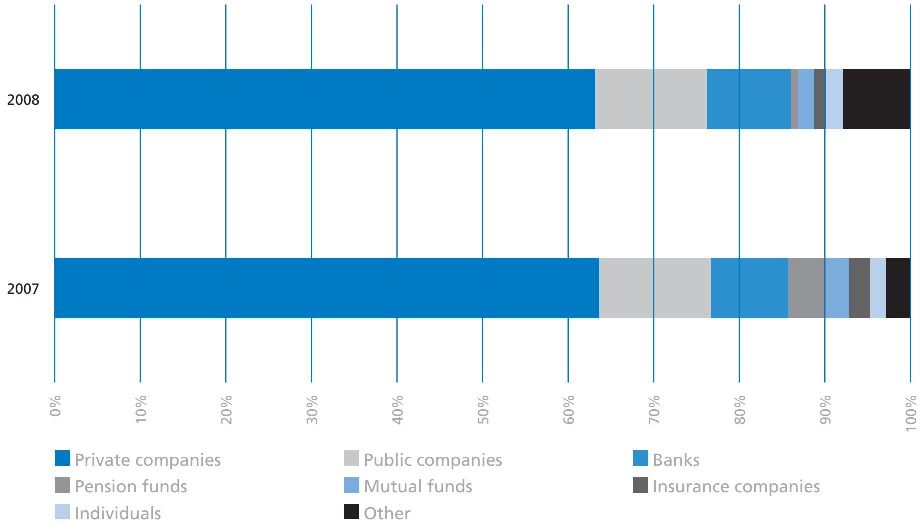
US Dollar million	2008	Restated 2007
Revenue	2,589	1,681
Operating expenses	(951)	(807)
Operating profit	1,638	874
Finance income	19	15
Finance costs	(49)	(39)
Profit before taxation	1,608	850
Taxation	(507)	(264)
Profit for the year	1,101	586
Attributable to:		
Equity holders of Kumba	874	465
Minority interests	227	121
	1,101	586
Per share information (cents)		
Attributable earnings per share	276	148
Diluted attributable earnings per share	273	145
Exchange rate		
Translated at average Rand/US Dollar exchange rate	8.25	6.84

Shareholder analysis

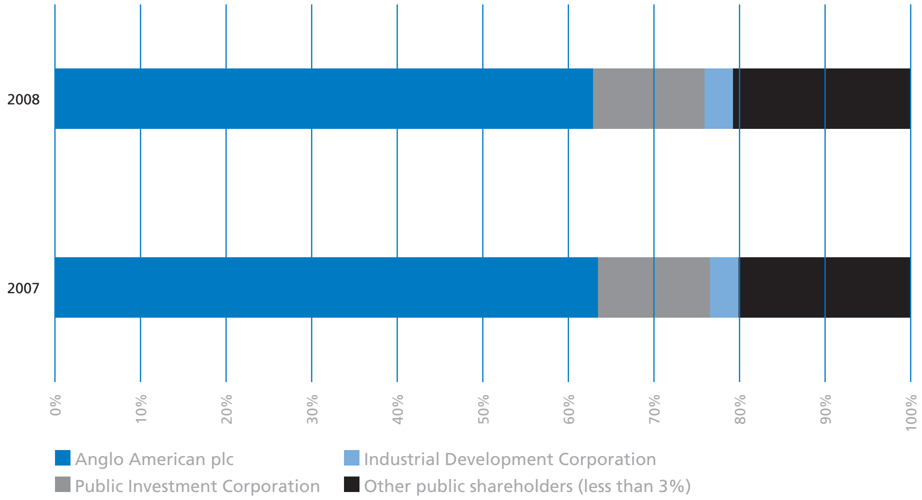
as at 24 December 2008

	Number of shareholders	% of shareholders	Number of shares	% of shares
Shareholder spread				
1 - 1,000 shares	15,077	88.89	3,563,762	1.11
1,001 - 10,000 shares	1,554	9.16	4,639,475	1.45
10,001 - 100,000 shares	269	1.59	7,849,924	2.46
100,001 - 1,000,000 shares	45	0.27	14,786,308	4.63
1,000,001 shares and over	16	0.09	288,621,952	90.35
Total	**16,961**	**100.00**	**319,461,421**	**100.00**
Distribution of shareholders				
Private companies	289	1.70	201,984,585	63.23
Public companies	9	0.05	41,534,484	13.00
Banks	142	0.84	31,433,884	9.84
Pension funds	330	1.95	2,461,630	0.77
Mutual funds	189	1.11	6,037,325	1.89
Insurance companies	50	0.30	4,754,993	1.49
Individuals	13,777	81.23	6,234,447	1.95
Others	2,175	12.82	25,020,073	7.83
Total	**16,961**	**100.00**	**319,461,421**	**100.00**
Public shareholders	**16,958**	**99.98**	**76,866,056**	**24.06**
Non-public shareholders	**3**	**0.02**	**242,595,365**	**75.94**
Directors holdings	1	0.01	4,250	0.00
Strategic holdings (more than 10%)	2	0.01	242,591,115	75.94
Total	**16,961**	**100.00**	**319,461,421**	**100.00**
Public shareholders				
Anglo American plc			201,092,500	62.95
Industrial Development Corporation			41,498,615	12.99
Breakdown of Non-Public Holdings				
Directors				
Uren, VP			**4,250**	**0.00**
Uren, Vincent Patrick			2,250	0.00
V.N Centurien Trust			2,000	0.00
Total			**4,250**	**0.00**
Strategic Holdings (more than 10%)				
Anglo American plc			**201,092,500**	**62.95**
Anglo South Africa Capital (Pty) Ltd			169,999,200	53.22
Stimela Mining Holdings (Pty) Ltd			31,093,300	9.73
Industrial Development Corporation			**41,498,615**	**12.99**
Total			**242,591,115**	**75.94**

Shareholder ownership
as at 24 December 2008



Major categories of shareholders (% of shares)



Major shareholders (% of shares)

Shareholder information


MONROVIA

Notice of annual general meeting

Kumba Iron Ore Limited

A member of the Anglo American plc group
(Incorporated in the Republic of South Africa)

Registration number: 2005/015852/06
Share code: KIO
ISIN: ZAE000085346
("Kumba" or "the company")

Notice is hereby given that the third annual general meeting of members of Kumba will be held at the Hyatt Regency Johannesburg Hotel, Rosebank at 12:00 on Friday, 20 March 2009, to consider, and if deemed fit, to pass the following resolutions with or without modifications:

1. Ordinary resolution number 1

Approval of annual financial statements

To receive and adopt the annual financial statements of the company for the year ended 31 December 2008, including the directors' report and the report of the auditors thereon and to confirm all matters and things undertaken and discharged by the directors on behalf of the company.

2. Ordinary resolution number 2

Reappointment of independent auditors

To reappoint Deloitte & Touche as independent auditors of the company for the ensuing year and to appoint Mr BW Smith as the designated auditor for the ensuing year.

3. Ordinary resolution number 3

Rotation of directors

To re-elect the following directors who retire by rotation in terms of clause 16.1 and 16.2 of the Articles of Association of the company and who are available:

3.1 CI Griffith
3.2 ZBM Bassa
3.3 DD Mokgatle
3.4 ND Moyo
3.5 AJ Morgan

Such re-elections are to be voted on individually.

Abridged curriculum vitae in respect of each director offering themselves for re-election is set out on page 43 of the annual financial statements.

4. Ordinary resolution number 4

Remuneration of non-executive directors

To approve the proposed remuneration of the non-executive directors with effect from 1 January 2009:

Chairman:	R1,000,000
Director:	R150,000
Audit committee chairman:	R168,000
Audit committee member:	R100,800
Other board committee chairman:	R134,400
Other board committee member:	R67,200

5. Ordinary resolution number 5

Approval of Kumba Bonus Share Plan

RESOLVED that the Kumba Iron Ore Limited Bonus Share Plan ("Plan"), tabled at the meeting and initialled by the Chairman for purposes of identification, be and is hereby approved and adopted by the company.

Ordinary resolution number 5 is dependent on the passing of ordinary resolution number 7 and special resolution number 1.

In terms of the JSE Limited Listings Requirements, the passing of this resolution is achieved by the attainment of a 75% majority of the votes cast by all shareholders present or represented by proxy at the meeting.

The salient features of the Plan can be found in a separate circular to shareholders. The Plan rules will be available for inspection at the company's registered office for a period of 14 days from the date of posting of the annual financial statements.

6. Ordinary resolution number 6

Specific authority to issue shares for cash

RESOLVED that the directors of the company be and are hereby authorised as a specific authority in terms of section 221 of the Companies Act, No. 61 of 1973, as amended, and in terms of the JSE Listings Requirements, to issue, in terms of the Kumba Iron Ore Limited Bonus Share Plan ("Plan") from time to time, such number of ordinary shares for a subscription price per share of either the then current market value or the par value per share as may be decided by the directors, as set out in the Plan.

7. Ordinary resolution number 7

Authority to control 5% of unissued shares

RESOLVED that subject to the provisions of the Act and the Listings Requirements of the JSE, the directors are authorised until the next annual general meeting of the company to allot and issue the authorised but unissued ordinary shares of one cent each in the capital of the company, up to a maximum of 5% (five percent) of the number of shares of the company's issued ordinary share capital; to such person or persons on such terms and conditions and at such times as the directors of the company may from time to time and in their discretion deem fit, after setting aside so many shares as may be required to be allotted and issued by the company pursuant to the company's approved employee share incentive schemes.

8. Ordinary resolution number 8

General authority to issue shares for cash

RESOLVED that in terms of the Listings Requirements of the JSE, the directors are hereby authorised by way of a general authority, to issue the authorised but unissued ordinary shares of one cent each in the capital of the company for cash, as and when suitable opportunities arise, subject to the Articles of Association of the company, the Act and the JSE Listings Requirements the following conditions:

- The equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue.
- Any such issue will only be made to "public shareholders" as defined by the JSE Listings Requirements and not to related parties.
- This authority shall only be valid until the next annual general meeting of the company but shall not extend beyond 15 (fifteen) months from the date this authority is given.
- That a paid press announcement giving full details, including the impact on the net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five per cent) or more of the number of shares in issue prior to the issue concerned.
- That the issues in aggregate in any one financial year shall not exceed 5% of the number of shares of the company's issued ordinary share capital (for purposes of determining the securities comprising the 5% number in any one year, account must be taken of the dilution effect, in the year of issue of options/convertible securities, by including the number of any equity securities which may be issued in future arising out of the issue of such options/convertible securities), and of a particular class, will be aggregated with any securities that are compulsorily convertible into securities of that class, and, in the case of the issue of compulsorily convertible securities, aggregated with the securities of that class into which they are compulsorily convertible.
- As regards the number of securities which may be issued (the 5% number), shall be based on the number of securities of that class in issue added to those that may be issued in future (arising from the conversion of options/ convertible securities), at the date of such application:
  - less any securities of the class issued, or to be issued in future arising from options/convertible securities issued, during the current financial year;
  - plus any securities of that class to be issued pursuant to:
    - a rights issue which has been announced, is irrevocable and is fully underwritten; or
    - acquisition (which has had final terms announced) may be included as though they were securities in issue at the date of application;
- that in determining the price at which an issue of shares for cash may be made in terms of this authority post the listing of the company, the maximum discount permitted shall be 10% of the weighted average traded price of the ordinary shares on the JSE, (adjusted for any dividend declared but not yet paid or for any capitalisation award made to shareholders) over the 30 (thirty) business days prior to the date that the price of the issue is agreed by the directors of the company and the party subscribing for the securities.

A 75% majority of votes cast in favour of the resolution by all equity securities present or represented by proxy at the annual general meeting is required for the approval of the above resolution.

9. Special resolution number 1

Specific authority to repurchase shares

RESOLVED that the company and/or any of its subsidiaries from time to time be and are hereby authorised, by way of a specific authority in terms of sections 85 and 89 of the Companies Act, No 61 of 1973, as amended, and in terms of the JSE Listings Requirements, to repurchase or purchase directly, or through an agent, on the market from time to time such number of ordinary shares in the company as the company and/or any of its subsidiaries may be required to repurchase or purchase in terms of the Kumba Iron Ore Limited Bonus Share Plan ("Plan").

Reason and effect

The reason for this special resolution is to obtain approval in terms of the Companies Act to grant the company and/or any of its subsidiaries' specific authority to acquire ordinary shares in the company for purposes of implementing the Plan. The effect of the special resolution will be to allow the company and/or any of its subsidiaries to acquire the company's ordinary shares from time to time.

The company's board has considered the impact which any number of repurchases or purchases of the company's issued ordinary share capital under the specific authority would have on the company and the group and is of the opinion that:

- the company and the group will, in the ordinary course of business, be able to pay its debts;
- the assets of the company and the group will be in excess of the liabilities of the company and the group, calculated in accordance with the accounting policies used in the audited financial statements for the year ended 31 December 2008; and
- the ordinary capital, working capital and reserves of the company and group will be adequate for ordinary business purposes;

for a period of 12 months after the date of this notice of annual general meeting.

10. Special resolution number 2

Authority to provide financial assistance to acquire shares in the company

RESOLVED that the company be and is hereby authorised in terms of section 38(2A) of the Companies Act, No. 61 of 1973, as amended, to provide such financial assistance as may be necessary in the acquisition or issue, directly or through an agent, of ordinary shares in the company for purposes of the Kumba Iron Ore Limited Bonus Share Plan ("Plan") as set out in the Plan.

Reason and effect

The reason for this special resolution is to obtain approval in terms of the Companies Act for the granting by the company of financial assistance in the acquisition or issue of its shares for purposes of the Plan. The effect of the special resolution will be to allow the company to provide financial assistance for the acquisition or issue of the company's shares in terms of the Plan.

The company's board has considered the effect which the giving of financial assistance for the purchase of or subscription for shares of the company would have and is satisfied that:

- subsequent to any such transaction, the consolidated assets of the company fairly valued will be more than its consolidated liabilities; and
- subsequent to providing the assistance, and for the duration of any such transaction, the company will be able to pay its debts as they become in the ordinary course of business.

11. Special resolution 3

General authority to repurchase shares

RESOLVED that, as a general approval contemplated in sections 85 to 89 of the Act, the acquisitions by the company and any of its subsidiaries, from time to time of the issued ordinary shares of the company, upon such terms and conditions and in such amounts as the directors of the company may from time to time determine, but subject to the Articles of Association of the company, the provisions of the Act and the JSE Listings Requirements, when applicable, and provided that:

1. the general repurchase of securities will be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counter party (reported trades are prohibited);
2. this approval shall be valid only until the next annual general meeting of the company and shall not extend beyond 15 (fifteen) months from the date of passing of this resolution;
3. at any point in time, a company may only appoint one agent to effect any repurchases on the company's behalf;
4. after such repurchase the company will still comply with the JSE Listings Requirements concerning shareholder spread requirements;
5. the company or its subsidiary may not repurchase securities during a prohibited period as defined in the JSE Listings Requirements unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period;
6. when the company any of it's subsidiaries collectively have cumulatively repurchased 3% of the initial number of the relevant class of securities, and for each 3% in aggregate of the initial number of that class acquired thereafter, an announcement will be made.
7. the company and its subsidiaries collectively shall not be entitled to acquire shares issued by the company constituting, on a cumulative basis, more than 10% of the number of shares in the company in issue from the date of grant of this approval; and
8. shares issued by the company may not be acquired at a price greater than 10% above the weighted average traded price of the company's shares for the five business days immediately preceding the date of the repurchase.

Reason and effect

The reason for and effect of this special resolution number 3 is to authorise, by way of a general authority, any of its subsidiary companies to acquire its own issued shares on such terms, conditions and in such amounts as determined from time to time by the directors of the company subject to the limitations set out above.

At the present time the directors have no specific intention with regard to the utilisation of this authority, which will only be used if the circumstances are appropriate. The company wishes to confirm that any repurchase of shares, if implemented, will only be dealt with via the formal JSE trading system.

Disclosures required in terms of the JSE listings requirements

In terms of the Listings Requirements of the JSE, the following disclosures are required when requiring shareholders' approval to authorise the company, or any of its subsidiaries, to repurchase any of its shares as set out in special resolution number 3 above.

Working capital statement

The directors of the company agree that they will not undertake any repurchase unless:

- the company and the group are in a position to repay their debt in the ordinary course of business for a period of 12 months after the date of the general repurchase;
- the assets of the company and the group, being fairly valued in accordance with International Financial Reporting Standards, are in excess of the liabilities of the company and the group for a period of 12 months after the date of the general repurchase;
- the share capital and reserves of the company and the group are adequate for ordinary business purposes for the next 12 months following the date of the general repurchase; and
- the available working capital of the company and the group will be adequate for ordinary business purposes for a period of 12 months after the date of the general repurchase.
- before entering the market to proceed with the general repurchase, the company's sponsor has confirmed the adequacy of the company's and the group's working capital in writing to the JSE.

Shareholder information
Notice of annual general meeting

Litigation statement

Other than disclosed or accounted for in these annual financial statements, the directors of the company, whose names are given on page 43 of these annual financial statements, are not aware of any legal or arbitration proceedings, pending or threatened against the group, which may have or have had a material effect on the group's financial position in the 12 months preceding the date of this notice of annual general meeting.

Directors' responsibility statement

The directors, whose names are given on page 43 of the annual financial review, collectively and individually accept full responsibility for the accuracy of the information pertaining to special resolution 1, 2 and 3 and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all information required by law and the JSE Listings Requirements.

Material changes

Other than the facts and developments reported on in these annual financial statements, there have been no material changes in the financial or trading position of the company and its subsidiaries since the signature date of this annual financial review and the posting date thereof.

The following further disclosures required in terms of the Listings Requirements of the JSE are set out in accordance with the reference pages in these annual financial statements of which this notice forms part:

- Directors – page 43
- Major shareholders of the company – page 134
- Directors' interest in the company's shares – page 58
- Share capital of the company – page 96

Voting and proxies

Members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a member. Proxy forms must be forwarded to reach the company's transfer secretaries, Computershare Investor Services (Pty) Limited [70 Marshall Street Johannesburg 2001 South Africa, by no later than 12:00 on Thursday 19 March 2009. Proxy forms must only be completed by members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.

On a show of hands, every member of the company present in person or represented by proxy shall have one vote only. On a poll, every member of the company shall have one vote for every share held in the company by such member.

Members who have dematerialised their shares, other than those members who have dematerialised their shares with "own name" registration, should contact their CSDP or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

Equity securities held by a share trust or scheme will not have their votes taken into account for the purposes of resolutions proposed in terms of the JSE Listing Requirements.

By order of the board

VF Malie
Company secretary

13 February 2009

Centurion

Kumba Iron Ore Limited

(Incorporated in the Republic of South Africa)
(Registration number: 2005/015852/06)
("Kumba Iron Ore" or "the company")
JSE code: KIO
ISIN: ZAE000085346

To be completed by certificated shareholders and dematerialised shareholder with "own name" registration only.

Form of proxy

For completion by registered members of Kumba Iron Ore who are unable to attend the annual general meeting of the company to be held at 12:00 on Friday 20 March 2009, at the Hyatt Regency Johannesburg Hotel, or at any adjournment thereof.

I/We ______________________________ (please print names in full)

of (address) ______________________________

being the holder/s or custodians of [   ] ordinary shares in the company, do hereby appoint:

1. ______________________________ or failing him/her,

2. ______________________________ or failing him/her,

3. the chairman of the general meeting, as my/our proxy to act for me/us at the general meeting which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the ordinary resolutions to be proposed thereat and at each adjournment thereof and to vote on such resolutions in respect of the ordinary shares in the issued capital of the company registered in my/our name/s in accordance with the following instructions:

	Number of votes (one vote per share)		
	In favour of	Against	Abstain
1. **Ordinary resolution number 1** (To consider the annual financial statements for the year ended 31 December 2008)			
2. **Ordinary resolution number 2** (To reappoint Deloitte & Touche as independent auditors and BW Smith as designated auditor)			
3. **Ordinary resolution number 3** (To re-elect the directors who retire in terms of article 16.1 & 16.2 of the articles of association)			
3.1. CI Griffith			
3.2. ZBM Bassa			
3.3. DD Mokgatle			
3.4. ND Moyo			
3.5. AJ Morgan			
4. **Ordinary resolution number 4** (To approve non-executive directors' remuneration with effect from 1 January 2009)			
5. **Ordinary resolution number 5** (To approve the Kumba Bonus Share Plan)			
6. **Ordinary resolution number 6** (Specific authority to issue shares for cash in terms of the Kumba Bonus Share Plan)			
7. **Ordinary resolution number 7** (Control of 5% of unissued shares)			
8. **Ordinary resolution number 8** (General authority to issue shares for cash)			
9. **Special resolution number 1** (Specific authority to repurchase shares)			
10. **Special resolution number 2** (Authority to provide financial assistance to acquire shares in the company)			
11. **Special resolution number 3** (General authority to repurchase shares)			

Insert an "X" in the relevant space above according to how you wish your votes to be cast, however, if you wish to cast your votes in respect of less than all of the shares that you own in the company, insert the number of ordinary shares held in respect of which you desire to vote.

Signed at ______________________________ on ______________________________

Signature ______________________________

Assisted by me (where applicable) ______________________________

Each member is entitled to appoint one or more proxies (none of whom need be a member of the company) to attend, speak and, on a poll, vote in place of that member at the general meeting. **Please read the notes on the reverse side hereof.**

Notes to proxy:

1. A form of proxy is only to be completed by those ordinary shareholders who are:
   1.1 holding ordinary shares in certificated form; or
   1.2 recorded on subregister electronic form in "own name".
2. If you have already dematerialised your ordinary shares through a Central Securities Depository Participant (CSDP) or broker and wish to attend the annual general meeting, you must request your CSDP or broker to provide you with a Letter of Representation or you must instruct your CSDP or broker to vote by proxy on your behalf in terms of the agreement entered into between you and your CSDP or broker.
3. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space. The person whose name stands first on the form of proxy and who is present at the annual general meeting of shareholders will be entitled to act to the exclusion of those whose names follow.
4. On a show of hands a member of the company present in person or by proxy shall have one (1) vote irrespective of the number of shares he/she holds or represents, provided that a proxy shall, irrespective of the number of members he/she represents, have only one (1) vote. On a poll a member who is present in person or represented by proxy shall be entitled to that proportion of the total votes in the company, which the aggregate amount of the nominal value of the shares held by him/her bears to the aggregate amount of the nominal value of all the shares issued by the company.
5. A member's instructions to the proxy must be indicated by the insertion of the relevant numbers of votes exercisable by the member in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the member's votes exercisable thereat. A member or the proxy is not obliged to use all the votes exercisable by the member or by the proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the member or by the proxy.
6. Forms of proxy must be lodged at, or posted to Computershare Investor Services 2004 (Pty) Limited, to be received not later than 24 hours before the time fixed for the meeting (excluding Saturdays, Sundays and public holidays).

   For shareholders on the South African register:

   Computershare Investor
   Services 2004 (Pty) Limited
   Ground Floor, 70 Marshall Street
   Johannesburg, 2001
   PO Box 61051
   Marshalltown
   2107

   www.computershare.com
   Tel: +27 11 370 5000

   Over-the-counter American Depository Receipt (ADR) holders: Kumba Iron Ore has an ADR facility with the Bank of New York (BoNY) under a deposit agreement. ADR holders may instruct BoNY as to how the shares represented by their ADRs should be voted.

   American Depository Receipt Facility
   Bank of New York
   101 Barclay Street, New York, NY 10286
   www.adrbny.com
   shareowners@bankofny.com
   (00-1) 888 815 5133
7. The completion and lodging of this form of proxy will not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
8. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity or other legal capacity must be attached to this form of proxy, unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting.
9. Any alteration or correction made to this form of proxy must be initialed by the signatory/ies.
10. Notwithstanding the aforegoing, the chairman of the annual general meeting may waive any formalities that would otherwise be a prerequisite for a valid proxy.
11. If any shares are jointly held, all joint members must sign this form of proxy. If more than one of those members is present at the annual general meeting either in person or by proxy, the person whose name appears first in the register shall be entitled to vote.

Kumba Iron Ore Limited administration

Secretary and registered office

VF Malie
Centurion Gate – Building 2
Corner John Vorster and Akkerboom Street
Zwartkop Extension 22
Centurion, Pretoria, 0046
Republic of South Africa
Tel: +27 12 683 7000
Fax: +27 12 683 7009

Company registration number:
2005/015852/06
JSE share code:
KIO
ISIN code:
ZAE000085346

Auditors

Deloitte & Touche
Chartered Accountants (SA)
Registered Auditors
Deloitte Place, The Woodlands
20 Woodlands Drive, Woodmead, 2146
South Africa
Private Bag X46, Gallo Manor, 2052

Sponsor

Rand Merchant Bank
(A division of FirstRand Bank Limited)
Registration number: 1929/001225/06
1 Merchant Place
Corner Rivonia Road and Fredman Drive
Sandton, 2146
South Africa
PO Box 786273, Sandton, 2146

Corporate law advisors

Deneys Reitz Inc
82 Maude Street
Sandton, 2196
South Africa
PO Box 784903, Sandton, 2146
United States ADR Depository
The Bank of New York
ADR Department, 101 Barclay Street
New York, NY 10286
United States of America

Transfer secretaries

Computershare Investor Services (Pty) Limited
70 Marshall Street
Johannesburg, 2001
South Africa
PO Box 61051, Marshalltown, 2107

Financial year-end	31 December 2009
Reports and accounts	Published
Announcement of interim results	July 2009
Interim report for the half-year ending 30 June	August 2009
Announcement of annual results	16 February 2010
Annual financial review	March 2010
Distribution	
Final dividend declaration	13 February 2009
Payment	16 March 2009
Interim dividend declaration	July 2009
Payment	September 2009

Shareholders' diary