

## 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

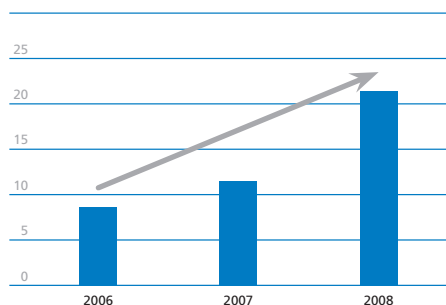
Total dividend

up 150%  
R14.5 bn

Cash from operations

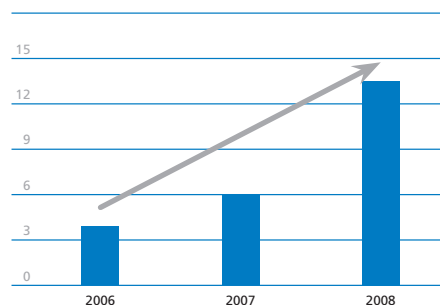
## Operating results

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



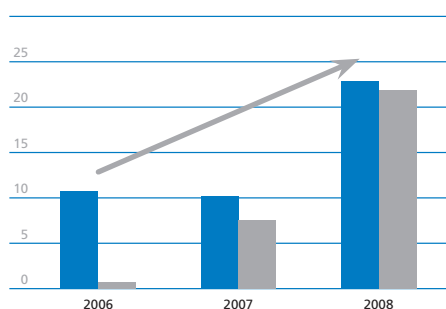
CAGR 2006 – 2008 : 35%

Revenue (R billion)



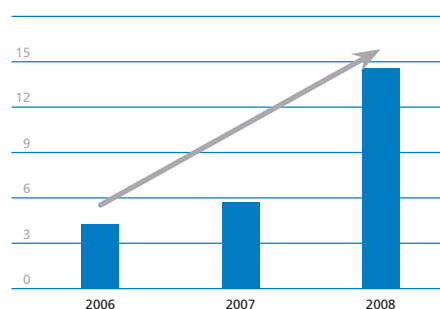
CAGR 2006 – 2008 : 51%

Operating profit (R billion)



■ Earnings per share ■ Dividend per share

Attributable earnings and dividend per share (Rand)



CAGR 2006 – 2008 : 50%

Cash from operations (R billion)

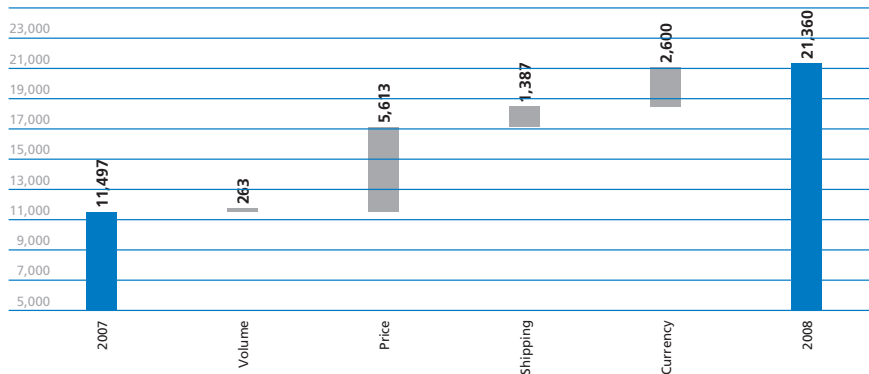
Rand million	2008	2007	% change	2006
Revenue	<b>21,360</b>	11,497	86	8,654
Operating expenditure *	<b>(7,847)</b>	(5,519)	42	(4,719)
Operating profit *	<b>13,513</b>	5,978	126	3,935
Operating margin (%) (EBIT)*	<b>63</b>	52	21	45
Headline earnings **	<b>7,276</b>	3,143	131	2,126
Cash from operations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

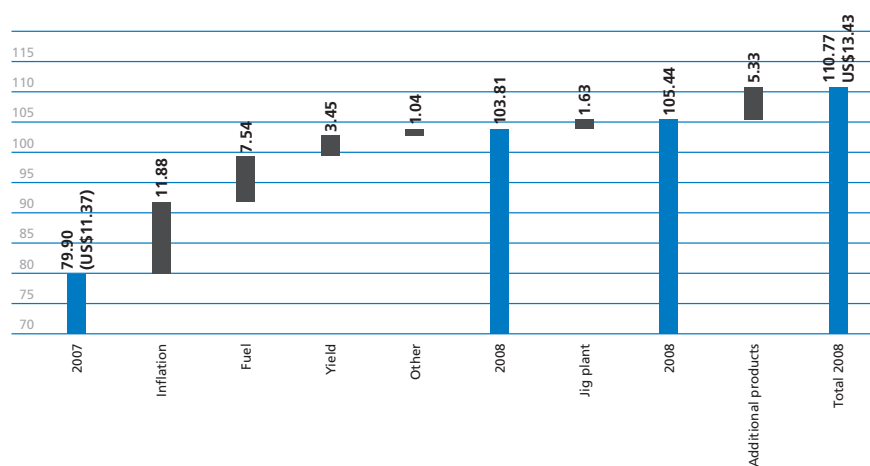
### Operating profit

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)

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

## Cash flow

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

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

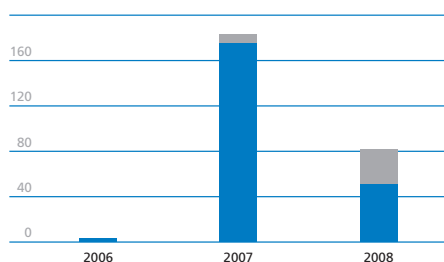
Attributable and headline earnings for the year were R22.80 and R23.02 per share respectively, on which a final dividend of R13.00 per share has been declared and an interim dividend of R8.00 per share was paid. This brings the total dividend for the year to R21.00 per share.

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.

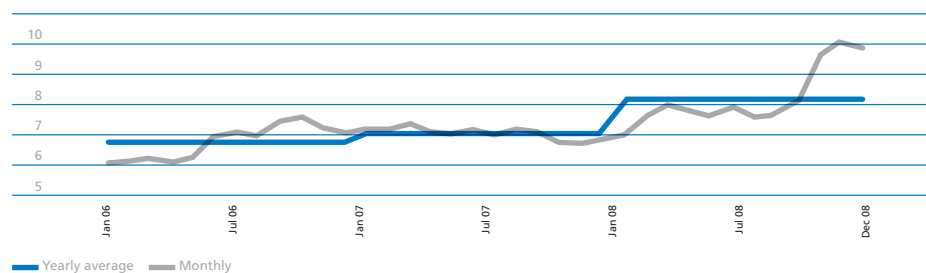
Starting late in 2008, Chinese customers have been given an opportunity to increase offtake of certain products (fines, coarse sinter and SEP lump), at a discount to long-term contract prices.

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)
<b>Increase in equity attributable to equity holders of Kumba</b>	<b>199</b>	<b>102</b>
Minority interest	(23)	(20)
<b>Increase in shareholders' equity</b>	<b>176</b>	<b>82</b>

Changes in accounting policy