

Financial review



Kumba Iron Ore Limited was registered as a legal entity in May 2005 with no trading taking place until November 2006. The audited results include trading for only the two-month period ended 31 December 2006. For analytical purposes a separately bound set of pro forma financial statements for the twelve months ended 31 December 2005 and 2006 is included.

VP Uren

Chief Financial Officer

Overview of group operating results

Audited group operating results for the two months ended 31 December 2006

Profit before interest and tax	Rm	684
Profit after tax	Rm	379
Profit attributable to ordinary shareholders	Rm	264
Basic earnings per share	cps	84
Dividend declared per share	cps	80

Profit before interest and tax was R684 million for the two-month period ended 31 December 2006. Profit after tax was R379 million, of which R115 million was attributable to minority interest holders. The minority interest holders' share for the period is effectively 30,3 percent, compared to the actual minority interest shareholding of 26 percent. An accounting charge of R153 million arises from the sale of 3 percent of the issued shares in SIOC, which Kumba Iron Ore sold to the SIOC Community Development Trust as part of the conditions of the Kumba Resources empowerment transaction. In terms of IFRS 2 the difference between the offer price and the fair value is charged to the income statement and is not shared by minority shareholders.

Costs were higher, largely as a result of rises in fuel, labour and project linked operating costs as well as an increase in waste stripping and maintenance related activities. The increases in costs were partially offset by continued operating cost savings from improvement

initiatives. Unit cost per tonne is expected to remain under pressure until the full benefit of additional tonnages through the SEP project is realised in 2009.

Stronger commodity prices and a weaker local currency towards the end of 2006 fuelled revenue growth. However, export sales volumes were adversely affected by the breakdown of a shiploader at Saldanha port in September 2006. This restricted shipments and necessitated the rescheduling of vessels. Due to the combined efforts of Transnet, our customers and our dedicated staff, export volumes decreased by only 3 percent to 21,5 Mt.

Sishen Mine increased production volumes of iron ore by 1 percent to 28,7 Mt and tonnages railed from the mine to Saldanha increased by 1 percent to 24,3 Mt. Domestic sales volumes decreased by 9 percent to 8,3 Mt as a result of lower off-take from Mittal.



Kumba Iron Ore was established following the unbundling of the iron ore assets from Kumba Resources in terms of the Kumba Resources empowerment transaction in November 2006.

We see what **could** be – Thabazimbi Mine



Financial review

continued

Overview of the twelve months ended 31 December 2006 (unaudited)

In 2006, Kumba Iron Ore's financial and operational performance was strong with year-on-year revenue and EBIT increasing from R6,6 billion to R8,7 billion and from R3,9 billion to R5,4 billion respectively. The underlying EBIT margin increased from 42% in 2005 to 46% in 2006. This excludes the proceeds on the settlement of Hope Downs in 2005, and the profit on the offshore non-iron ore assets sold to Kumba Resources in terms of the empowerment transaction. It also excludes the IFRS 2 expense of R153 million arising on the sale of equity to the SIOC Community Development Trust.

As part of the empowerment transaction, all offshore non-iron ore assets were sold to Kumba Resources resulting in a non-recurring profit of R1,553 million in September 2006.

Unit production cost at Sishen Mine increased by 27 percent to R79,59/t over the FY2005 cost base (R62,43/t). The main drivers behind this increase were inflationary pressure on input costs that had an unfavourable impact on unit cost that resulted in increases of R4,70/t (7,6 percent) as well as operational costs.

These cost increases were driven by:

- Changed mining conditions and compliance related activities increased unit cost by R1,22/t (2 percent).
- Costs deliberately incurred to utilise additional rail capacity and increase throughput (increased throughput by 650 000 tonnes) increased unit cost by R2,06 (3 percent).
- Outsourced mining activities to achieve pre-stripping waste targets increased unit cost by R4,72/t (8 percent).
- Higher crude oil prices increased petroleum costs by R1,76/t (3 percent).
- Above inflationary salary and wage increases increased unit costs by R0,77/t (1 percent).

Dividends

The group's policy is to pay regular dividends. The level of dividend payments is considered half-yearly against prevailing trading conditions, the balance sheet structure and available cash flow, taking cognisance of value-adding growth opportunities. The board accordingly approved a maiden dividend for the two-month period ended 31 December 2006.

The total dividend amount (excluding STC) for the two months to 31 December 2006 is covered 1,05 times by attributable earnings.

Period ended 31 December 2006

Earnings dividend	cps	80
Total dividend payable	Rm	251
STC	Rm	31
Total	Rm	282

Cash flow

As with the preceding ten months the operations for the two months ended 31 December 2006, generated strong cash flows.

Cash and cash equivalents at 31 December 2006 were R1,1 billion, whilst cash generated from operating activities amounted to R389 million. A net cash outflow of R140 million for the period related largely to capital expenditure (R511 million) that includes the SEP capital expenditure (R398 million), partially offset by a R400 million increase in cash resources, being the opening balance of cash in SIOC upon the acquisition of SIOC from Kumba Resources. Net interest-bearing borrowings of R884 million were taken up during the two-month reporting period.

Capital expenditure

The table below contains a comparison of capital expenditure for the two-month period to 31 December 2006 and the twelve-month period ended 31 December 2006 (unaudited).

	2 months ended 31 December 2006	12 months ended 31 December 2006 (unaudited)
Capital expenditure – Rm		
Environmental	–	46
Expansion	424	1 462
Replacement	87	216
Total	511	1 724

Financial structure

During November 2006, the group put in place revolving loan facilities in order to replace previous back-to-back loan facilities provided by Kumba Resources. The net debt as at 31 December 2006 was R2,925 million and interest-bearing debt, details of which are found in annexure 1, amounted to R4,019 million.



Vincent Uren