

ECONOMIC REVIEW



Kumba's success is enjoyed by its employees, shareholders, the government, customers, suppliers and contractors.

The value that Kumba creates is impacted by the demand for iron ore and the price of iron ore. Chinese domestic iron ore production decreased substantially during the year, thereby increasing seaborne iron ore imports. Kumba increased sales to China by 130% with China accounting for 75% of Kumba's export sales. Iron ore demand from Europe and Japan decreased during the year, but improvement is likely in 2010. Despite the increase in export sales volumes, Kumba's operating profit was marginally down by 5% despite a 40% decline in benchmark iron ore prices. In order to sustain demand for iron ore, Kumba is engaged in customer development in other regions.

Here Kumba demonstrates why it is a key contributor to the economies of the areas in which it operates.

EXPORT SALES VOLUMES UP

37%
to 34.2 Mt

UNIT CASH COST DOWN

4% in real terms

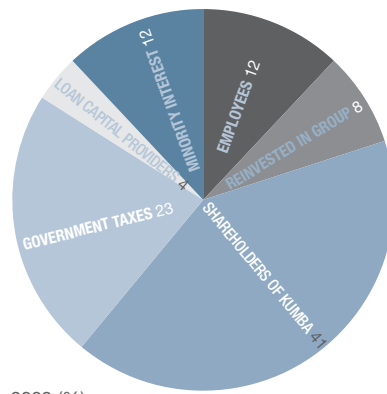
OPERATING PROFIT

R12.9bn

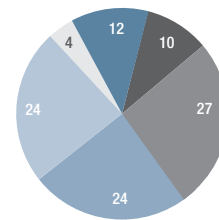
Value creation

Kumba created R15.7 billion worth of value during 2009 (2008: R15.6 billion; 2007: R7.6 billion). Its impressive financial performance, together with progress in capital projects and a sustained focus on operational efficiencies, will ensure that future growth is sustained.

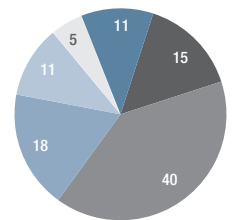
VALUE CREATED



2009 (%)



2008 (%)



2007 (%)

The company's asset optimisation initiatives and cost management assisted the company to deliver exceptional value. Kumba has implemented a number of revenue enhancing and cost management initiatives as part of this programme which realised R2.0 billion in operating profit.

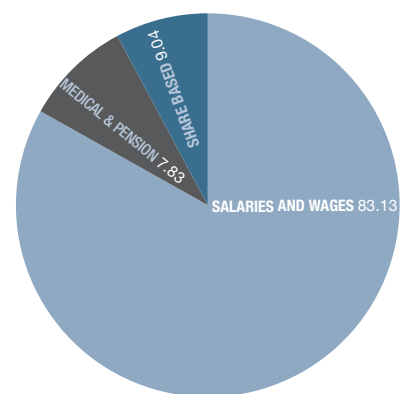
The recurring nature of some of these initiatives will assist in enhancing the financial performance of the group and protecting operating profit margins in the future. These initiatives include increasing export sales volumes, decreasing maintenance shutdown intervals, producing and selling niche products to enhance the premiums received, and procurement and operating efficiency cost savings. The Sishen Mine transformation programme launched during the year – Bokamoso – started to deliver

cost savings in the important area of mining operating efficiency.

The group continued to generate substantial cash from its operations, with R12.6 billion generated during the year. These cash flows were used to pay taxation of R3.2 billion and aggregate dividends of R8.2 billion during the year, thereby increasing the return to shareholders from 24% in 2008 to 41% in 2009.

The cost of goods, materials and services purchased for the year amounted to R5.7 billion, a 39% increase over the R4.1 billion spent in 2008. During 2009, Kumba paid R1.8 billion (2008: R1.4 billion) in salaries and other benefits.

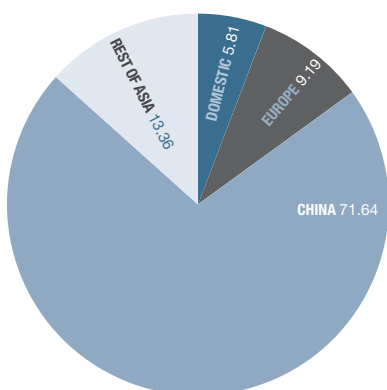
BREAKDOWN OF SALARIES AND BENEFITS (%)



Sales

Kumba generated its revenue through the sale and transportation of iron ore to customers in the geographical regions shown in the graph below.

BREAKDOWN OF SALES (% OF R-VALUE)



Kumba's increased revenue was driven by a 37% surge in export sales volumes. Of these, 75% was sold to China as Kumba redirected lost sales volumes from its traditional markets.

Lower demand from ArcelorMittal SA resulted in a decline in domestic sales volumes during the year.

Ownership

At unbundling, 26% of the Sishen Iron Ore Company (SIOC) was transferred to: Exxaro Resources (20%), the SIOC Community Development Trust through a SPV (3%) and Envision, a broad-based employee share participation scheme (3%). These parties, along with Kumba, participate in the dividend declared by SIOC.

The group's strong cash flow generation enabled the consistent payment of an interim and final dividend since listing on

the JSE Limited in 2006. This return of cash to shareholders has enabled the community trust and employee shareholders to redeem substantial portions of the original funding required to invest in SIOC, with full repayment possible within the next year for the trust.

Employees, have received R125 million in dividends over the past three years and the remaining R445 million of dividends received by the scheme have been used to reduce the original funding and to pay interest. Over 5,000 employees currently participate in the scheme which is valued at approximately R2.3 billion, after accounting for the scheme's funding.

(Rand millions)	Total 2006 – 2009	2009	Total dividend		
			2008	2007	2006
Dividend declared by SIOC	18,957	6,295	9,040	3,266	356
– Kumba	14,028	4,658	6,690	2,417	263
– Exxaro	3,789	1,259	1,808	653	69
– SIOC Community Development Trust	570	189	271	98	12
– Envision	570	189	271	98	12

Enterprise development

23

BUSINESSES CREATED

R54m

REVENUE GENERATED

250

PERMANENT JOBS CREATED

In terms of economic spin-offs, the first significant impact which Kumba has is on its suppliers, the establishment thereof and, in some instances, their sustainability. Kumba sees its impact broken down into two parts: the first is its role in establishing enterprises; the second how much, as a proportion of its discretionary spend, it procures from these and other enterprises.

Responsibility for enterprise development is with the mines' social and community development departments with support from Anglo Zimele. Most of Kumba's enterprise development activities are driven out of the small business hub at Kathu. To date the hub facilitated the creation of 23 businesses with finance (R10.6 million) provided by Anglo Zimele. Over the last 20 months, these businesses have generated revenue of R54 million and created 250 permanent jobs. To enhance the prospects of these enterprises, a mentoring outfit provides additional business support to individual entrepreneurs after evaluation of their needs.

Examples of small businesses, in various stages of development, supported by the hub in Kathu include:

- Compost project – the project will be formally handed over to the six shareholders and Tshimo Gardens (a new nursery and garden business in Kathu) with effect from 1 January 2010.
- Donna's Cleaning Services – mine wash bays are equipped and functioning according to mine safety standards. The car wash facility outside the mine is operational.
- Proposed meat processing plant – feasibility studies show significant interest by various stakeholders in the Northern Cape.
- ART Plant – the tyre recycling business at Sishen Mine established to address the large number of old truck tyres requiring disposal by the mine.
- Organic Honey Bee Pilot Project – a feasibility study indicated that Kathu is ideal for beekeeping. Sishen Mine provided land for the beekeeping cooperative and an off-take agreement was negotiated with Harewyn Organics in Cape Town to ensure sustainability from the onset. The cooperative employs 12 people.



Procurement

- Zinc Air Fuel Cells Project – cheap and renewable energy is a must in poor and impoverished rural areas. Sishen Mine contracted AEDC, renewable energy specialists, to install zinc air fuel cells in 250 houses in two rural villages. The roll-out includes the establishment of a commercial repair and maintenance facility for the fuel cells.

Enterprise development at Kolomela and Thabazimbi mines is also significant and includes the following projects:

- Hydroponic farming
- Another beekeeping project
- Poultry farming
- Opening a Butterland Bakery franchise in Thabazimbi
- The Rethabile Sewing Project
- The Kromdraai Subsistence Farming project
- Brick manufacturing by the Aganang Cooperative.

For 2009 Kumba committed to spending 36% of its discretionary spend with black-owned and black-empowered vendors. This target was met – the company spend was 36.85% with these businesses.

This translates into payments amounting to R3.2 billion (2008: R2.2 billion) out of a total of R8.6 billion discretionary spend. Total procurement by the company for 2009 was R12.6 billion.

Supply chain

– sustainable development

Kumba is in the process of auditing its suppliers in terms of the requirements of the Sustainable Development in Supply Chain policy. Once the necessary software systems are in place, Kumba will intensify the auditing process and begin implementing the policy.

% DISCRETIONARY SPEND

36.85
increase: 46.7%



The Kgalagadi Wood Project received second place in the Africa SMME Awards

Sishen Mine's Small Business Start-up Hub in Kathu received a Nedbank Capital Green Mining award in the socio-economic category.



The bumper fitted to this truck is vital in minimising damage caused in case of an accident