Commentary

Highlights

In the current global economic climate Kumba's financial results for the period continue to reflect its strength as an iron ore supplier. Notwithstanding lower export volumes to Europe and Japan, the group's revenue increased by 33% to R12.0 billion on the back of higher sales volumes into China, which was partially offset by lower iron ore export prices. Kumba maintained its operating profit margin, through cost management and a weaker Rand exchange rate, at 57% for the six months (62% from mining activities), down 1% from 58% (63% from mining activities) in 2008. Profit for the six months ended 30 June 2009 was R4.3 billion, an increase of 23% from R3.5 billion in 2008, while headline earnings increased by 22% from R2.8 billion to R3.4 billion. Cash generated by operations for the period increased to R7.5 billion, up 63% compared to the R4.6 billion generated during 2008.

Attributable and headline earnings for the six months were R10.81 per share and R10.76 per share respectively, on which an interim cash dividend of R7.20 per share has been declared.

Safety performance

It is with regret that the group reports a fatality for the period when Mr Tebogo David Marope, a 23 year old contractor of Concor, was fatally injured during road construction at the Sishen South Project on 28 January 2009.

Kumba further improved its safety performance during the period, at existing operations with only five lost-time injuries ('LTI's') being recorded. This translates into a lost-time injury frequency rate ('LTIFR') of 0.08 compared to the 0.12 incurred for the 2008 year (a 33% improvement). Thabazimbi Mine also continued its excellent performance by recording no LTI's during the period. The Board remains committed to zero harm at all the Kumba sites.

Operating results

Challenges faced by the global economy led to unprecedented volatility and rapid decreases in commodity prices and off-take volumes. Steel mills in Europe, Japan and Korea are operating on average at 60% to 70% of capacity. However, annualised steel production in China has increased by almost 10% from the 2008 average. This increase in production coupled with lower Chinese domestic iron ore production, resulted in record seaborne iron ore imports by China.

Total tonnes mined at Sishen Mine increased by 15% from 50.9Mt in 2008 to 58.3Mt, of which waste mined was 36.1Mt, an increase of 23% from the prior year. This increase in waste mining activity is undertaken to mitigate geological constraints in the pit and secure the future of the mine. Total production at Sishen Mine increased by 14% to 18.0Mt from 15.8Mt in 2008. The ramp up of production from the Sishen Expansion Project ('SEP') jig plant has seen a healthy increase during the six months, reaching 830 000 tonnes in June 2009, equivalent to an annualised rate of 10Mtpa. The 4.4Mt produced by the jig plant during the period, accounted for 24% of Sishen Mine's production. Kumba remains on schedule to achieve an annualised rate of 13Mtpa from the jig plant during the fourth quarter of 2009. Production from the Dense Media Separation ('DMS') plant was stable during the period at 13.6Mt, in line with expectations.

The group increased total sales volumes by 16% from 17.3Mt in 2008 to 20.0Mt. Export sales volumes from Sishen Mine for the six months increased by 29% from 13.3Mt in 2008 to 17.1Mt on the back of increasing volumes from the jig plant, the sale of stock built up towards the end of 2008, as well as the successful introduction of a new blended fines product. China accounted for more than 80% of Kumba's export sales volumes during the period. Domestic sales volumes to ArcelorMittal SA for the period are down by 26% or 0.7Mt due to lower demand.

Notwithstanding continued adverse market conditions, Kumba continues to conclude long-term iron ore export contracts and is active in customer development in other regions.

Through tight cost management and an increase in production from the jig plant, Sishen Mine's cash unit cost increase has been contained at 8%, R104.12 per tonne compared to R96.53 per tonne at the end of 2008, despite increased mining activity. On a like-for-like basis total unit cost has increased by 9% from R105.44 per tonne in 2008 to R114.98 per tonne.

Finished product stockpile levels are closely monitored and have reduced from 5.8Mt to 4.6Mt; 1.2Mt below 2008 closing levels. Volumes railed on the Sishen-Saldanha export channel increased by 32%.

Production at Thabazimbi Mine reduced by 13% for the six months ended 30 June 2009 as a result of lower off-take by ArcelorMittal SA. The decrease in domestic demand has resulted in a build up of ArcelorMittal SA's finished product stock at Thabazimbi Mine, with stockpiles growing 0.4Mt to 0.7Mt.

Export sales to long-term contractual customers for the first three months of 2009 were based on an average 93% increase in the iron ore benchmark price for the 2008/2009 iron ore year, although it was predominantly fine ore that was sold during this period. Final settlement for the 2009/2010 iron ore year has not been reached between Kumba and all its customers. Kumba was able to redirect into China lost export contract volumes from Europe and Japan, which volumes were sold predominantly at spot prices. In preparing these financial results Kumba has used a prudent estimate of the expected decrease in iron ore prices for 2.8Mt which remain subject to contractual settlements.

Kumba has achieved a strong financial performance for the six months ended 30 June 2009 on the back of the solid operational performance with revenue increasing by 33% from R9.0 billion in 2008 to R12.0 billion. Operating profit increased by R1.6 billion or 31% from R5.2 billion in 2008 to R6.8 billion, principally as a result of:

- Increased sales volumes, which contributed R1.9 billion, offset by the year-on-year weighted average decrease in export iron ore prices, reducing operating profit by R677 million,
- A R133 million decrease in profit from shipping operations. Total tonnes shipped increased by 8.5Mt to 12.1Mt during 2009. This increase in volume was offset by a decrease in the shipping margin achieved (average shipping margin – US$3/tonne in 2009, net of the release of the unused portion of the provision recognised at 31 December 2008 on three voyages during the period, compared with US$18/tonne in 2008),
- The weakening of the average exchange rate of the Rand to the US Dollar (average exchange rates – R9.16/US$1.00 in 2009 compared with R7.65/US$1.00 in 2008), which contributed R1.5 billion to operating profit,
- All of which was further offset by a R1.0 billion or 39% increase in operating expenses (excluding shipping expenses), as a result of the 14% increase in volumes produced, 23% increase in waste mined and higher freight and logistics costs during the period. This increase was fuelled by inflationary pressures, offset by decreasing cost of diesel and blasting products and cost management.

Kumba has implemented a number of revenue enhancing and cost management initiatives which have realised R726 million of operating profit during the period. These initiatives are predominantly recurring in nature and will assist in enhancing the financial performance of the group and protecting operating profit margins in the future. These initiatives include, amongst others: increasing tonnes on which shipping services can be provided, decreasing maintenance shutdown intervals, producing and selling niche products to enhance the premium received, doubling first hour mining tonnages through improved shift transitions and procurement and operating efficiency cost savings.

The group continued to generate substantial cash from its operations, with R7.5 billion generated during the period, an increase of 63% on the R4.6 billion generated in 2008. These cash flows were used to pay taxation of R1.1 billion and dividends of R4.1 billion during the period. Capital expenditure of R348 million was incurred to maintain operations and R1.2 billion to expand operations, mainly on the Sishen South Project. At 30 June 2009 the group had a gross debt position of R5.5 billion and cash on hand of R5.2 billion. Interest cover remained strong at 51 times (27 times at the end of 2008).

During July 2009 Kumba successfully negotiated a new debt facility of R3.2 billion to replace the R2.8 billion revolving debt facility that would have matured in November 2009.

In line with the dividend policy the Board has reviewed the dividend cover of Kumba in the light of current market uncertainties, Kumba's growth plans and availability of credit, and deemed it prudent to increase Kumba's dividend cover from one to one comma five times. In light of this more prudent approach the Board has approved a dividend of R7.20 per share (R8.00 per share June 2008).

Sishen South Project

Despite the challenges in the global economy, development of the Sishen South Project continues and remains on schedule for first production during the first half of 2012, ramping up to full capacity of 9Mtpa in 2013. Construction on the project is progressing well with R1.8 billion capital expenditure incurred to date, of which R1.0 billion has been incurred during the six months ended 30 June 2009.

Mineral resources and reserves

There have been no material changes to the resources and reserves as disclosed in the 2008 Kumba Annual Report.

Prospects

Kumba remains on track with its targeted 10% annual increase in production volumes, should market conditions permit. However, there is limited visibility in demand for seaborne iron ore for the remainder of 2009. Whilst no recovery in the European iron ore market is anticipated in 2009, the Japanese and Korean markets appear to be near the bottom of the cycle and a small improvement in demand is likely. Although the sustainability of China's increasing appetite for imported iron ore is uncertain, Kumba remains cautiously optimistic on its continued ability to redirect its export sales volumes into China. Domestic sales volumes remain dependent on the off-take requirements from ArcelorMittal SA which are likely to be lower than in 2008.

Industry annual iron ore price negotiations have commenced with certain settlements reflecting annual price reductions of some 33% for fine ore and 44.5% for lump ore. Kumba anticipates settlement with its customers within the next three months. As Kumba's operating profit remains highly sensitive to the Rand/US Dollar exchange rate, earnings for the second half of 2009 are likely to be adversely affected given a stronger Rand relative to the US Dollar and the year-on-year iron ore price reductions anticipated.*

**The forecast financial information has not been reviewed and reported on by Kumba's auditors.*

Production report for the six months ended 30 June 2009

Production summary

Total iron ore production increased by 11% in the second quarter from a year earlier to 9,82Mt. This was due mainly to the additional production delivered by the jig plant and stable performance from the DMS plant.

Six month overview

	Year-to-date		
'000 tonnes	30 June 2009	30 June 2008	% change
Iron ore	19 147	17 063	12
– Lump	11 671	10 180	15
– Fines	7 476	6 883	9
Mine production	19 147	17 063	12
– Sishen Mine	18 032	15 788	14
DMS plant	13 617	13 998	(3)
Jig plant	4 415	1 292	242
Other	–	498	–
– Thabazimbi Mine	1 115	1 275	(13)

Quarterly overview

	Quarter ended			Quarter ended		
'000 tonnes	30 June 2009	30 June 2008	% change	31 March 2009	31 March 2008	% change
Iron ore	9 824	8 873	11	9 323	8 190	14
– Lump	6 076	5 292	15	5 595	4 888	14
– Fines	3 748	3 581	5	3 728	3 302	13
Mine production	9 824	8 873	11	9 323	8 190	14
– Sishen Mine	9 339	8 247	13	8 693	7 541	15
DMS plant	6 964	6 841	2	6 653	7 157	(7)
Jig plant	2 375	908	162	2 040	384	431
Other	–	498	–	–	–	–
– Thabazimbi Mine	485	626	(23)	630	649	(3)