

Notes to the condensed consolidated interim financial report

1 Corporate information

Kumba is a limited liability company incorporated and domiciled in South Africa. The main business of Kumba, its subsidiaries, joint ventures and associates is the exploration, extraction, beneficiation and marketing, sale and shipping of iron ore. The group has its primary listing on the JSE Limited.

The condensed consolidated interim financial report of Kumba and its subsidiaries for the six months ended 30 June 2009 was authorised for issue in accordance with a resolution of the directors on 22 July 2009.

2 Basis of preparation and accounting policies

The condensed consolidated interim financial report for the six months ended 30 June 2009 has been prepared in compliance with the South African Companies Act No 61 of 1973, as amended, the Listings Requirements of the JSE Limited and International Accounting Standard 34, Interim Financial Reporting. The condensed consolidated interim financial report has been prepared in accordance with International Financial Reporting Standards ('IFRS').

The condensed consolidated interim financial report has been prepared in accordance with the historical cost convention except for certain financial instruments, share-based payments and biological assets which are stated at fair value, and is presented in Rand, which is Kumba's functional and presentation currency.

Except as disclosed below, the accounting policies and methods of computation applied in the preparation of the condensed consolidated interim financial report are consistent with those applied for the year ended 31 December 2008.

The group adopted the following amendment to an existing standard and new standard with effect from 1 January 2009.

IAS 1 (revised), Presentation of Financial Statements

The revised standard requires that changes in equity resulting from transactions with owners (holders of instruments classified as equity) be presented separately from non-owner changes in equity (also known as other comprehensive income). In addition specific disclosures for components of other comprehensive income have been introduced. The adoption had no effect on the financial position or performance of the group.

IFRS 8, Operating Segments

IFRS 8 replaces IAS 14, Segment Reporting, and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented, as the previously reported business segment, mining (being mining, extraction and production of iron ore) has been split further into the different mines that the group operates as well as its shipping operations.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Kumba executive committee.

The accounting standards, amendments to issued accounting standards and interpretations, which are relevant to the group, but not yet effective at 30 June 2009, have not been adopted. The group is currently evaluating the impact of these pronouncements.

3 Property, plant and equipment

The group incurred capital expenditure on property, plant and equipment of R1.2 billion for the six months ended 30 June 2009 (2008: R589 million) for the expansion of its operations, mainly on the Sishen South Project, and R348 million (2008: R217 million) to maintain its operations, mainly for the acquisition of mining equipment.

A total of R205 million was transferred from assets under construction to machinery, plant and equipment for the period. Of this, R88 million related to the jig plant at Sishen Mine.

4 Share capital

The group acquired 301 603 of its own shares through purchases on the JSE Limited during the period. The total amount paid to acquire the shares was R53 million. The shares have been utilised in the allocation of conditional share awards under the Kumba Bonus Share Plan. The shares are held as treasury shares and the purchase consideration has been deducted from equity.

Options exercised under the management share option scheme during the period to 30 June 2009 resulted in 1 333 740 shares being issued (2008: 759,610 shares) with exercise proceeds of R65 million (2008: R25 million).

5 Interest-bearing borrowings

Kumba's net debt position at balance sheet dates is as follows:

	Reviewed 30 June 2009 Rm	Reviewed 30 June 2008 Rm	Audited 31 Dec 2008 Rm
Long-term interest-bearing borrowings	2 678	2 840	977
Short-term interest-bearing borrowings	2 862	1 463	2 881
Total	5 540	4 303	3 858
Cash and cash equivalents	(5 157)	(2 009)	(3 810)
Net debt	383	2 294	48
Total equity	7 502	5 511	8 506
Interest cover (times)	51	27	33

Movements in interest-bearing borrowings are analysed as follows:

	Reviewed 30 June 2009 Rm	Reviewed 30 June 2008 Rm	Audited 31 Dec 2008 Rm
Opening balance as at 1 January	3 858	3 530	3 530
Debt raised	1 700	2 840	3 847
Repayment of borrowings	(18)	(2 067)	(3 519)
Closing balance	5 540	4 303	3 858

Subsequent to 30 June 2009 Kumba has secured a R3.2 billion term loan to refinance the revolving facility that matures in November 2009. To date R2.7 billion of the R5.4 billion term debt facility raised in 2008 has been drawn down to finance Kumba's expansion. This facility matures on 28 November 2013. The maximum net debt in terms of current covenants is R5.5 billion, Kumba will be released from this covenant upon repayment of the maturing revolving facility. Kumba was not in breach of any of its covenants during the period. The group had undrawn borrowing facilities at 30 June 2009 of R6.7 billion.

6 Significant items included in operating profit

Operating expenses

Operating expenses is made up as follows:

	Reviewed 30 June 2009 Rm	Reviewed 30 June 2008 Rm	Audited 31 Dec 2008 Rm
Production costs	2 581	1 864	4 030
Movement in inventories	(111)	97	(289)
– Finished products	(117)	219	(190)
– Work-in-progress	6	(122)	(99)
Cost of goods sold	2 470	1 961	3 741
Selling and distribution costs	1 468	865	1 977
Cost of services rendered – shipping	1 234	979	2 085
Impairment of property, plant and equipment	–	–	50
Sublease rent received	(6)	(3)	(6)
Operating expenditure	5 166	3 802	7 847

Operating profit has been derived after taking into account the following items:

	Reviewed 30 June 2009 Rm	Reviewed 30 June 2008 Rm	Audited 31 Dec 2008 Rm
Staff costs	786	601	1 376
Share-based payment expenses	68	54	106
Depreciation of property, plant and equipment	205	134	332
Impairment of property, plant and equipment	–	–	50
(Profit)/loss on disposal and scrapping of property, plant and equipment	(22)	–	12
Finance gains	(97)	(159)	(1 043)
– Gains on derivative financial instruments	(491)	(206)	(133)
– Foreign currency losses/(gains)	394	47	(910)
Operating profit capitalised	–	352	370
– Revenue	–	574	579
– Expenses	–	(222)	(209)

7 Income taxes

The income tax expense is recognised based on management's best estimate of the effective annual income tax rate expected for the full financial year. The estimated effective annual tax rate (excluding Secondary Taxation on Companies) used for the year to 31 December 2009 is 27.5% (2008: 28.4%).

8 Related party transactions

During the six months Kumba, in the ordinary course of business, entered into various sale and purchase transactions with associates and joint ventures. These transactions were subject to terms that are no less favourable than those offered by third parties.

Included in cash and cash equivalents at 30 June 2009 is a short-term deposit facility placed with Anglo American SA Finance Limited of R450 million.

9 Segmental reporting

The chief operating decision-maker which is responsible for allocating resources and assessing performance of the operating segments, has been defined as the Kumba executive committee. Management has determined the operating segments of the group based on the reports reviewed by the executive committee.

The executive committee considers the business principally according to the nature of the products and service provided, with the segment representing a strategic business unit. The reportable operating segments derive their revenue primarily from mining, extraction, production and selling of iron ore and shipping services charged to external clients.

Corporate, administration and other expenditure not allocated to the different segments therefore form part of the reconciliation to profit before taxation under the heading 'Other segments'.

The Kumba executive committee assesses the performance of the operating segments based on a measure of earnings before interest and tax ('EBIT'). This measurement basis is consistent with 'operating profit' in the financial statements. Interest income and expenditure are not allocated to segments, as this type of activity is managed on a central group basis.

The total segment revenue comprises revenue from external customers as the group does not have any inter-segment revenue.

	Sishen Mine Rm	Thabazimbi Mine Rm	Shipping operations Rm	Total Rm
Six months ended 30 June 2009				
Revenue (from external customers)	10 175	267	1 545	11 987
EBIT	6 718	6	305	7 029
Six months ended 30 June 2008				
Revenue (from external customers)	7 365	260	1 423	9 048
EBIT	4 973	9	440	5 422
Year ended 31 December 2008				
Revenue (from external customers)	18 308	640	2 412	21 360
EBIT	13 705	32	317	14 054

A reconciliation of EBIT to total profit before taxation is provided as follows:

	Reviewed 30 June 2009 Rm	Reviewed 30 June 2008 Rm	Audited 31 Dec 2008 Rm
Total EBIT for reportable segments	7 029	5 422	14 054
Other segments	(208)	(176)	(541)
Operating profit	6 821	5 246	13 513
Net finance costs	(73)	(51)	(251)
Profit before taxation	6 748	5 195	13 262

Kumba is domiciled in South Africa. The result of its revenue from external customers and its non-current assets (other than financial instruments and deferred tax assets) disclosed on a geographical basis, are set out below:

Revenue from external customers:

	Reviewed 30 June 2009 Rm	Reviewed 30 June 2008 Rm	Audited 31 Dec 2008 Rm
Total revenue	11 987	9 048	21 360
South Africa	622	603	1 341
Export	11 365	8 445	20 019
– Europe	520	2 207	5 218
– China	9 115	4 482	9 203
– Rest of Asia	1 730	1 756	5 598

Non-current assets:

	Reviewed 30 June 2009 Rm	Reviewed 30 June 2008 Rm	Audited 31 Dec 2008 Rm
Total	9 532	6 553	8 156
– South Africa	9 530	6 511	8 155
– China	1	–	–
– Rest of Africa	1	42	1

10 Changes in contingent liabilities since 31 December 2008

There have been no significant changes in the contingent liabilities disclosed at 31 December 2008 that arise from the guarantees provided for environmental rehabilitation and decommissioning obligations of the Kumba Rehabilitation Trust Fund. The bank guarantees for property acquisitions have been exercised subsequently to the 2008 year end.

11 Legal proceedings

Lithos Corporation (Pty) Limited (Lithos)

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.

Miferso

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.

ArcelorMittal SA Limited

Kumba and ArcelorMittal SA have agreed to arbitration to resolve the differences in interpretation of the Sishen Supply Agreement. Arbitration proceedings were initiated by Kumba. Arbitrators have been appointed and hearings commenced in June 2009. These proceedings are confidential in nature.

12 Post-balance sheet date events

The directors are not aware of any matter or circumstance arising since the end of the period and up to the date of this report, not otherwise dealt with in this report.

13 Corporate governance

The group subscribes to the Code of Good Corporate Practices and Conduct as contained in the King II Report on corporate governance and the Board has satisfied itself that Kumba has complied throughout the period under review in all material aspects with the code.

14 Independent audit opinion

The group's auditors, Deloitte & Touche, have issued their unmodified review opinion on the condensed consolidated interim financial report for the six months ended 30 June 2009. A copy of their unmodified review opinion is available for inspection at the company's registered office.

On behalf of the Board

PL Zim
Chairman

CI Griffith
Chief Executive Officer

22 July 2009
Pretoria