

HIGHLIGHTS

- Operating profit up
- Interim cash dividend
- Headline earnings up
- Commitment to zero harm

78%
800 cents per share
76%
LTIFR of 0,07

COMMENTARY

Highlights

For the six months ended 30 June 2008 Kumba Iron Ore Limited ('Kumba') continued to deliver strong financial results. Revenue increased by 67% as a result of higher sales volumes, stronger iron ore prices and increased revenue from shipping services. Despite continued pressure on operating expenses, Kumba's operating margin increased to 58% in 2008 (63% from mining activities), from 54% (57% from mining activities) in 2007. Profit for the six months ended 30 June 2008 was R3,5 billion, whilst headline earnings increased 76% from R1,6 billion to R2,8 billion. Cash generated by operations for the period increased to R4,6 billion, up 52% compared to the R3,0 billion generated during the corresponding period in 2007.

Attributable and headline earnings for the six months were 890 cents per share, on which an interim cash dividend of 800 cents per share has been declared.

Safety performance

Kumba's commitment to zero harm is reflected in the safety achievements of the first six months of 2008 which have shown meaningful improvement when measured by lost time injuries ('LTI's') as Kumba worked for three of the six months without a single LTI. Sishen Mine achieved a lost time injury frequency rate ('LTIFR') of 0,08 which is the best ever performance in the history of the mine.

Thabazimbi Mine achieved a LTIFR of zero for 2008 which was down from 0,12 in December 2007. Kumba achieved a LTIFR of 0,07 for the six months, recording only 4 LTI's in the period. Notwithstanding this improvement, it is with regret that the group announces that it suffered one fatality for the period when Mr Kagiso Peace Leboa, a 42 year old truck operator, was fatally injured at Sishen Mine during April 2008. The Board expresses its deepest condolences to the family of Mr Kagiso Peace Leboa.

Operating results

World crude steel production continued to increase during the six months ended 30 June 2008, mostly fuelled by demand from China. Demand for iron ore, which is a critical input of the steel industry, has continued to increase. China's imports of iron ore rose to over 200Mt in the first six months of 2008. This is expected to grow to 750Mtpa over the next five years. Export sales for the first three months of 2008 were based on the 9,5% increase in the iron ore benchmark price for the 2007/2008 iron ore year. Final price settlement for the 2008/2009 iron ore year between Kumba and its customers is anticipated in the third quarter of 2008.

In preparing these financial results Kumba has used a prudent estimate of future prices. These price estimates (April to June 2008) are based on settlements announced by the three iron ore majors and take into account Kumba's lump to fines ratio, its importance as a supplier to the Asian market and the physical characteristics of its products.

Strong financial and operational performance for the six months ended 30 June 2008 was achieved, with revenue increasing 67% from R5,4 billion in 2007 to R9,0 billion. Operating profit increased by R2,3 billion or 78% from R2,9 billion in 2007 to R5,2 billion, principally as a result of:

- Average export price increases contributed R1,3 billion to operating profit.
- Improved sales volumes added R588 million.
- The weakening of the average exchange rate of the Rand to the US Dollar (average spot exchange rates – R7,65/US\$1,00 in 2008 compared with R7,15/US\$1,00 in 2007), which contributed R644 million to operating profit.

COMMENTARY *(continued)*

- Increased operating profit from shipping operations of R444 million. Revenue from shipping operations increased by R1,1 billion to R1,4 billion in 2008, while shipping expenses increased by R713 million to R979 million during the same period.
- All of which was partially offset by a R608 million or 27% increase in operating expenses (excluding shipping expenses), mainly as a result of inflationary pressures, including the rising costs of fuels, lubricants and maintenance-related activities.

The group increased total sales volumes by 6% from 16,3Mt in 2007 to 17,3Mt. Export sales volumes from Sishen Mine for the six months increased by 13% from 11,8Mt in 2007 to 13,3Mt. Sales volumes increased on the back of higher volumes from the Sishen Expansion Project ('SEP') jig plant and the sale of stock built up at the port towards the end of 2007. Volumes railed on the Sishen-Saldanha export channel increased by 11%, which is slightly below our commitment to Transnet. Kumba anticipates an increase in volumes railed as production volumes from the jig plant increase. Production at Thabazimbi Mine was stable.

Total tonnes mined at Sishen Mine decreased slightly from 51,2Mt in 2007 to 50,9Mt. During the period an additional 2,8Mt of B-grade material (with an iron content of between 55% and 60%) mined at Sishen Mine at a cost of R160 million was stockpiled for use in the jig plant to bring the total B-grade material stockpiled to some 12Mt with a cost of R600 million. Sishen Mine's unit cost increase of 17% from 31 December 2007 was contained at R93,39 per tonne compared to R79,90 per tonne at the end of 2007, despite inflationary pressures across the mining industry.

South Africa's power constraints have affected Kumba's operations during the period. The direct impact on production volumes was limited to 24 000 tonnes during the period. However, the decision to periodically stop all electricity power-assisted trucking to reduce Sishen Mine's energy usage has resulted in an increase in the use of diesel, at a time when fuel costs have reached record levels. Consequently Sishen Mine has seen an increase of 62% in fuel costs year-on-year.

Cash flows of R4,6 billion were generated from operations, an increase of 52% on the R3,0 billion generated in 2007. These cash flows were used to pay

taxation of R1,6 billion and dividends of R1,3 billion during the period. Capital expenditure of R217 million was incurred to maintain operations and R589 million to expand operations. At 30 June 2008, the group had a gross debt position of R4,3 billion and cash on hand of R2,0 billion. Interest cover remained strong at 27 times (19 times at the end of 2007).

Sishen Expansion Project

Production from the jig plant for the six months to 30 June 2008 was 1,3Mt. This production level was lower than anticipated and was impacted by several technical difficulties as well as the late commissioning of the crushing and sample plants. Through the dedication of the teams involved these technical issues have been systematically identified and are being addressed through redesign and re-engineering of certain of the design aspects. Whilst this process has taken longer than initially anticipated, good progress has been made with the crushers, which are performing at design capacity, and with bringing forward the commissioning of the 7th and 8th jig modules to the third quarter of 2008, these initiatives are expected to contribute to the continued ramp-up of production from the jig plant. It is anticipated that, based on the recent performance from the jig plants, production of some 5Mt should be achieved for 2008.

Sishen South Project

The project entails the development of a greenfield opencast mine on a group of iron ore bodies some 80km south of Sishen Mine. Kumba has been notified by the Department of Minerals and Energy that its application for new order mining rights for Sishen South has been granted. In addition, in June 2008, the Sishen South Project was issued with an integrated water-use licence for the proposed development at Sishen South. The conclusion of an agreement with Transnet is imminent in respect of the expansion of the Sishen-Saldanha export line. The R5,9 billion (real – January 2008) project is progressing through the final approval stages, whereafter an announcement will be made. Based on current forecasts it is anticipated that first production from the new 9Mtpa mine should be in 2012.

Stakeholder value creation

Exxaro Resources Limited holds a 20% interest in Sishen Iron Ore Company (Proprietary) Limited ('SIOC')

and the SIOC Community Development SPV (Proprietary) Limited and SIOC Employee Share Participation Scheme ('Envision') each hold an interest of 3% in SIOC. Of the profit of R3,5 billion, R729 million is attributable to minority interests in SIOC. In preparing the condensed consolidated financial report, SIOC Community Development SPV and Envision are considered special purpose entities and are consolidated for accounting purposes. Of the total shareholders' equity of R4,4 billion at 30 June 2008, R320 million is attributable to these entities through their interests in SIOC.

Envision was formed in November 2006. A total of 4 456 employees who participate in the scheme, have received a total of R11 million in dividends since inception. A further R21 million will be paid to employee participants from the dividend declared by SIOC in July 2008. Since inception of the scheme, meaningful value has been created for employee participants through the appreciation in the Kumba share price from R110 from when Kumba listed on the JSE Limited.

The SIOC Community Development SPV was founded to hold an investment in SIOC for the greater development of the communities in which SIOC operates. R11 million of dividends have flowed to the SIOC Community Development Trust since its inception.

Mineral resources and reserves

There have been no material changes to the resources and reserves as disclosed in the 2007 Kumba Annual Report.

Prospects

Kumba remains positive on the prospects for iron ore given continued strong Chinese demand for steel and upward pressure on iron ore prices, as supply and logistics constraints delay bringing on stream new production in response to increased demand. Final settlement of iron ore prices for the 2008/2009 iron ore year between Kumba and its customers is anticipated in the third quarter of 2008.

Technical difficulties have impeded the ramp up of the SEP jig plant. Good progress is being made in identifying and addressing the remaining technical risks and as a result the ramp up of SEP production should escalate in the second half of 2008.

With significant increases in the costs of diesel, steel, explosives and electricity, as well as the power supply constraints, operating costs will remain under pressure. The anticipated benefits of a reduction in unit costs through the additional SEP jig plant volumes is anticipated only when full design capacity is reached.

Change in directorate

Ras Myburgh handed over the role of Chief Executive Officer of Kumba to Chris Griffith on 1 July 2008, when Ras began his secondment to South Africa's national electricity supplier – Eskom. This forms part of Kumba's efforts to continue to support Eskom in developing solutions to meet the country's energy needs.

The Board extends its sincere thanks to Ras for his leadership during the birth of our new company and wishes Ras well in his new important role.