

# Annual financial results

for the year ended 31 December 2009



A member of the Anglo American plc group

# **ANNUAL FINANCIAL RESULTS**

for the year ended 31 December 2009

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KUMBA DELIVERED AN EXCEPTIONAL SAFETY,  
OPERATIONAL AND SALES PERFORMANCE IN 2009



## highlights

### SAFETY (LTIFR)

**42%↓** 0.07

### SISHEN MINE PRODUCTION

**16%↑** 39.4Mt

### EXPORT SALES VOLUMES

**37%↑** 34.2Mt

### SISHEN MINE UNIT CASH COST

**4%↓** in real terms

### FINAL CASH DIVIDEND

**R7.40** per share

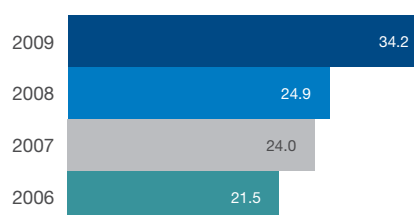
### SISHEN SOUTH ARBITRATION

**FAVOURABLE AWARD**

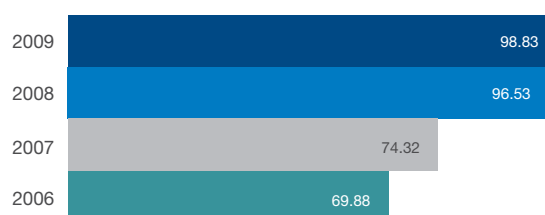
### SISHEN MINE PRODUCTION (Mt)



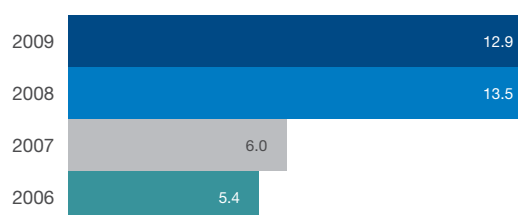
### EXPORT SALES VOLUMES (Mt)



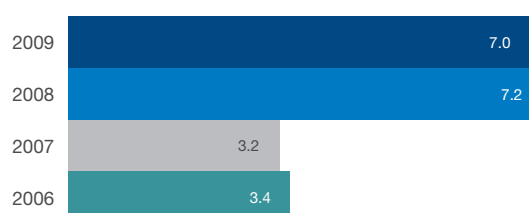
### SISHEN MINE UNIT CASH COST (R/tonne)



### OPERATING PROFIT (R billion)



### ATTRIBUTABLE EARNINGS (R billion)





## Commentary

### Highlights

Kumba delivered an exceptional operational and sales performance in 2009 with substantial increases in mining, production and export sales volumes and strong cash flows driven by an increase in export revenues and tight cost management, notwithstanding the backdrop of global economic recession. Kumba's revenue increased by 10% to R23.4 billion on the back of a 37% increase in export sales volumes driven by strong demand from China, though tempered by lower export volumes to Europe and Japan. Despite starting the year with concerns over the visibility and sustainability of export sales, the group increased revenue through higher export sales volumes which was mostly offset by the 40% reduction in benchmark iron ore export prices resulting in a 5% decrease in operating profit. Through focused cost management and a 16% increase in production, mainly from the Jig plant, the small increase in Sishen Mine's unit cash cost on a like-for-like basis was well below inflationary cost escalations. Sishen Mine's unit cash cost for 2009 was R98.83 (US\$11.78) per tonne compared to R96.53 (US\$11.70) per tonne at the end of 2008.

Attributable and headline earnings for the year were R21.88 per share and R21.82 per share respectively, on which a final cash dividend of R7.40 per share has been declared. The group's strong cash flow generation has enabled the consistent payment of an interim and final dividend since listing on the JSE Limited in November 2006 aggregating to R43.90 per share. This return of cash to shareholders has enabled our community trust and employee shareholders to redeem substantial portions of the original funding required to invest in Sishen Iron Ore Company (Pty) Limited in early 2010, with full repayment possible within the next year for the trust.

A favourable award was received in the arbitration with ArcelorMittal SA Limited ('ArcelorMittal') and it has been determined that ArcelorMittal is not entitled to participate in the development of the Sishen South Project currently under construction.

### Safety performance

Kumba's commitment to zero harm continues to deliver marked achievements. At existing operations the group improved on its safety performance during the year, with only ten lost-time injuries ('LTIs') being recorded. This translated into a lost-time injury frequency rate ('LTIFR') of 0.07 per 200,000 hours compared to the 0.12 incurred in 2008 (a 42% improvement). Thabazimbi Mine continued its excellent performance by completing its second year without recording a single LTI. Sishen and Thabazimbi mines worked the full year without a fatality. In Sishen Mine's case this was the first time in five years that the mine worked fatality free. Kolomela Mine (Sishen South Project) achieved 4.3 million LTI-free man-hours to date.

Notwithstanding this improvement during the year, it was regrettable that we had suffered one fatality for the year 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.

### Market overview

World crude steel production started to recover during the second half of 2009 with most major steel producing countries posting an increase in output, compared to the first half of 2009 and second half of 2008. However, world crude steel production for 2009 was 8% down on the previous year's output, reaching 1 220Mt, compared to the previous year's 1 327Mt. Chinese steel production for 2009 reached 568Mt, compared to 500Mt in 2008, representing a 13.6% increase year-on-year, and increased in excess of consumption by 30Mt. The increase in steel production coupled with lower Chinese domestic iron ore production, resulted in record seaborne iron ore imports into China. The European, Japanese and Korean markets have started a tentative recovery and an improvement in iron ore demand has been experienced during the second half of the year due to some production increases and restocking by the steel industry.

### Operational performance

Total tonnes mined at Sishen Mine increased by 18% from 108.8Mt in 2008 to 128.3Mt, of which waste mined was 82.1Mt, an increase of 28% from the prior year. This increase in waste mining activity is undertaken to mitigate the increasing depth of the ore body, geological constraints in the pit and to secure the future of the mine. Total production at Sishen Mine increased by 16% from 34.0Mt in 2008 to 39.4Mt. Production from the Dense Media Separation ('DMS') plant increased by 0.6Mt to 29.0Mt, which was above expectations. The ramp up of production from the Jig plant has seen a substantial increase during the year, with production more than doubling that of the prior year. The 10.4Mt produced by the Jig plant during the year accounted for 26% of Sishen Mine's production. Kumba remains on schedule to achieve about 13Mtpa from the Jig plant during 2010.

The group increased total sales volumes by 21% from 33.0Mt in 2008 to 40.0Mt. Export sales volumes from Sishen Mine for the year increased by 9.3Mt or 37% from 24.9Mt in 2008 to 34.2Mt on the back of increasing volumes from the Jig plant, the successful introduction of a new blended fines product and an increase in demand from China. Export sales volumes to China totalled 75% (43% in 2008) of total export volumes for the year. Total domestic sales volumes for the year of 5.8Mt are down by 28% or 2.3Mt due to lower demand from ArcelorMittal.

Logistics and export operations have performed adequately in transporting the increased production achieved for 2009. Volumes railed on the Sishen-Saldanha export channel increased by 23% to 34.6Mt, whilst a 38% increase in the volumes shipped from the port at Saldanha was achieved. A record 134 vessels shipped 21.5Mt by Kumba on behalf of its customers.

Production at Thabazimbi Mine reduced by 7% to 2.5Mt for the year as a result of lower off-take by ArcelorMittal. The decrease in domestic demand resulted in a build up of ArcelorMittal's finished product stock at Thabazimbi Mine, from 0.8Mt to 1.1Mt.

### Operating results

Kumba's strong operational performance underlaid a solid financial performance for the year ended 31 December 2009. R12.9 billion operating profit was achieved for the year, a reduction of R633 million or 5% from the R13.5 billion in 2008. Kumba's operating profit margin of 55% for the year (61% from mining activities), decreased by 8% from 63% (69% from mining activities) in 2008 as benchmark iron ore prices decreased on average by 40% for the 2009/2010 iron ore year.

The drop-off in demand for iron ore from Kumba's traditional markets (Europe, Japan and Korea), which had started in the fourth quarter of 2008, continued in 2009. Chinese demand for iron ore, however, continued to grow – not only because of increased crude steel production, but also because of markedly lower domestic iron ore production. Kumba was able to divert volumes from Europe, Japan and Korea into China, which accounted for 75% (43% in 2008) of Kumba's export volumes in 2009. 35% of iron ore was sold on an index basis, and more than 30 new customers were developed. In all, export sales increased by 37% year-on-year, and sales into China grew by 130%.

Kumba settled benchmark prices in Europe, Japan and Korea in the third quarter of 2009, applying retroactively from 1 April 2009. Settlements were in line with other settlements in these markets, and resulted in approximately a 40% reduction in benchmark prices. No formal, industry-wide settlement was concluded in China, but sales were effected at prices similar to settlements in other markets.

Operating profit decreased by 5% or R633 million, principally as a result of:

- Increased export sales volumes added R6.6 billion to operating profit; offset by the year-on-year weighted average decrease of 40% in benchmark iron ore prices, which reduced operating profit by R5.4 billion; and lower domestic sales volumes due to the decline in domestic demand, which reduced operating profit by R377 million. The net effect of these factors was an increase in operating profit of R0.8 billion.
- A R308 million increase in profit from shipping operations. Total tonnes shipped by Kumba increased by 15.3Mt from 6.2Mt to 21.5Mt during 2009. This increase in volume was offset by a decrease in the shipping margin achieved (average shipping margin – US\$3/tonne in 2009). The unused portion of the provision raised in 2008 amounting to US\$22.8 million (R191 million) was released during the year.
- The weakening of the average exchange rate of the Rand to the US Dollar (average exchange rates – R8.39/US\$1.00 in 2009 compared with R8.25/US\$1.00 in 2008), which contributed R301 million to operating profit, and lower net valuation gains over 2008 from US\$ denominated monetary assets and derivative instruments, which reduced operating profit by R665 million.
- All of which was further offset by a R1.4 billion or 36% increase in operating expenses (excluding shipping expenses), as a result of the 28% increase in waste mined at Sishen Mine, 14% increase in volumes produced, and a 36% increase in logistics costs driven by increased sales volumes during the year. This increase was further fuelled by inflation, though offset by lower costs of diesel and blasting products and strict cost management.

Kumba has implemented a number of revenue enhancing and cost management initiatives as part of the asset optimisation programme which have realised R2.0 billion in operating profit during the year, including once-off revenue enhancement activities that contributed R1.4 billion for 2009. The recurring nature of certain of these initiatives will assist in enhancing the financial performance of the group and protecting operating profit margins in the future. These initiatives include, amongst others: increasing export sales volumes on which shipping services were provided; decreasing maintenance shutdown intervals; producing and selling niche products to enhance the premia received and procurement and operating efficiency cost savings. The flagship Sishen Mine transformation programme launched during the year ("Bokamoso") has started to deliver cost savings in the important area of operating efficiency in mining. Further value from this programme will be unlocked as it progresses to the next stages of the production process of the mine.

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. Capital expenditure of R4.0 billion was incurred, of which R1.2 billion was to maintain operations and R2.8 billion to expand operations, mainly on Kolomela Mine. At 31 December 2009 the group had a net debt position of R3 billion. Interest cover remained strong at 43 times (33 times at the end of 2008).

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

The Board reviewed the cash flow generation, growth plans and the capital structure of Kumba and is pleased to approve a final dividend of R7.40 per share (interim dividend R7.20 per share).

### Kolomela Mine

The development of the Kolomela Mine continues and remains on budget and on schedule to deliver initial production during the first half of 2012, ramping up to full capacity of 9Mtpa in 2013. Construction on the project is progressing well and mining operations commenced after the first blast on 17 September 2009. To date 4Mt of material has been moved; project engineering is substantially complete; and significant progress has been made on manufacturing and construction. R3.2 billion of capital expenditure (including R189 million of capitalised mining operating expenses) has been incurred to date, of which R2.5 billion has been incurred during the year ended 31 December 2009.

### Mineral resources and ore reserves

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

New information from exploration around Sishen Mine and the Zandriverspoort Project has led to model updates and a subsequent 12% decrease in mineral resources from those shown in the Kumba 2008 Annual Report. The Sishen Mine mineral resources outside the current life of mine plan decreased from 1 628.5Mt to 1 438.5Mt. Mineral resources for the Zandriverspoort Project decreased from 421.9Mt to 347.4Mt.

### Prospects

Analyst forecasts indicate that global steel consumption should grow in excess of 5% per annum over the next three years, which would lead to increasing iron ore demand. Chinese demand for iron ore is expected to grow by at least 5% during 2010. With Chinese domestic iron ore production falling this has placed increased pressure on seaborne iron ore imports and spot prices. A further recovery outside of China is expected during 2010 and pressures on seaborne iron ore supply continue to rise. Overall, the global seaborne iron ore market remains structurally tight. The growing demand for seaborne iron ore is also manifested in the sharp rise in steel scrap and spot iron ore prices, with the latter indicating a significant premium to 2009 contract prices.

Current market consensus indicates an increase in iron ore export prices for the 2010/2011 iron ore year. Although global steel demand is expected to return to growth in 2010, this is likely to be moderate and the sustainability of increase in demand outside of China remains uncertain. Domestic sales volumes from Thabazimbi and Sishen mines remain dependent on the off-take requirements from ArcelorMittal.

Kumba is committed to a further increase in production volumes during 2010, with the continued ramp up of the Jig plant. Waste mining at Sishen Mine is anticipated to increase as the pit gets deeper and wider. Export sales volumes into China are expected to normalise at around 60% of the geographical sales mix.

Kumba's operating profit remains highly sensitive to the Rand/US Dollar exchange rate. Relative to the US Dollar, the South African Rand has strengthened ~20% over the past year. The first mining royalty is payable by Kumba's mining operations from March 2010. Management focus will be on asset optimisation initiatives, cost management and additional production and sales volumes to lessen the adverse effects of the stronger rand, mining royalty and the cost pressures from an increase in waste mining.

### Changes in directorate

The Board of directors of Kumba announced the resignation of Dr Nkosana Moyo and Mr Philip Baum as non-executive directors on 12 January 2010. Both Dr Moyo and Mr Baum were members of the Board of Kumba since its inception in November 2006.

The chairman of the Board, Mr Lazarus Zim, expresses the Board and management's gratitude to Dr Moyo and Mr Baum for their contribution during their tenure.

Mr David Weston, Anglo American plc's Group Director of Business Performance and Projects, was appointed as a non-executive director on 10 February 2010.

## Production report for the year ended 31 December 2009

### Production summary

Total iron ore production increased by 20% in the fourth quarter from a year earlier to 11.5Mt and by 14% for the year ended 31 December 2009 to 41.9Mt. This was due mainly to the 3.1Mt production delivered by the Jig plant during the quarter and 10.4Mt for the year, as well as an 8% increase in performance from the DMS plant for the last quarter.

### Yearly overview

'000 tonnes	Year ended		% change
	31 Dec 2009	31 Dec 2008	
Iron ore	41 943	36 699	14
– Lump	25 300	22 042	15
– Fines	16 643	14 657	14
Mine production	41 943	36 699	14
– Sishen Mine	39 388	34 039	16
DMS plant	28 958	28 395	2
Jig plant	10 430	4 747	120
Additional initiatives	–	897	–
– Thabazimbi Mine	2 555	2 660	(4)

### Quarterly overview

'000 tonnes	Quarter ended			Quarter ended		
	31 Dec 2009	31 Dec 2008	% change	30 Sept 2009	30 Sept 2008	% change
Iron ore	11 466	9 552	20	11 330	10 084	12
– Lump	6 790	5 897	15	6 839	5 965	15
– Fines	4 676	3 655	28	4 491	4 119	9
Mine production	11 466	9 552	20	11 330	10 084	12
– Sishen Mine	10 705	8 857	21	10 651	9 394	13
DMS plant	7 586	7 028	8	7 755	7 346	6
Jig plant	3 119	1 647	89	2 896	1 808	60
Additional initiatives	–	182	–	–	240	–
– Thabazimbi Mine	761	695	9	679	690	(2)

## Condensed group balance sheet

as at

	Audited 31 Dec 2009 Rm	Audited 31 Dec 2008 Rm
<b>Assets</b>		
<b>Non-current assets</b>	12 031	8 205
Property, plant and equipment	11 568	7 911
Biological assets	7	8
Investments in associates and joint ventures	20	6
Investments held by environmental trust	279	237
Long-term prepayments	28	32
Deferred tax assets	129	11
<b>Current assets</b>	5 776	8 498
Inventories	2 559	1 879
Trade and other receivables	2 195	2 262
Current tax asset	131	547
Cash and cash equivalents	891	3 810
<b>Total assets</b>	17 807	16 703
<b>Equity and liabilities</b>		
Shareholders' equity	7 282	6 859
Minority interest	1 674	1 647
<b>Total equity</b>	8 956	8 506
<b>Non-current liabilities</b>	6 609	3 351
Interest-bearing borrowings	3 859	977
Provisions	468	384
Deferred tax liabilities	2 282	1 990
<b>Current liabilities</b>	2 242	4 846
Short-term interest-bearing borrowings	55	2 881
Short-term provisions	4	310
Trade and other payables	2 161	1 655
Current tax liabilities	22	–
<b>Total equity and liabilities</b>	17 807	16 703

## Condensed group income statement

for the year ended

	Audited 31 Dec 2009 Rm	Audited 31 Dec 2008 Rm
Revenue	23 408	21 360
Operating expenses	(10 528)	(7 847)
<b>Operating profit</b>	<b>12 880</b>	<b>13 513</b>
Finance income	286	154
Finance costs	(413)	(405)
<b>Profit before taxation</b>	<b>12 753</b>	<b>13 262</b>
Taxation	(3 949)	(4 179)
<b>Profit for the year</b>	<b>8 804</b>	<b>9 083</b>
<b>Attributable to:</b>		
Owners of Kumba	6 975	7 208
Minority interest	1 829	1 875
	<b>8 804</b>	<b>9 083</b>
<b>Earnings per share for profit attributable to the owners of Kumba (Rand per share)</b>		
Basic	21.88	22.80
Diluted	21.77	22.54

## Condensed group statement of other comprehensive income

for the year ended

	Audited 31 Dec 2009 Rm	Audited 31 Dec 2008 Rm
<b>Profit for the year</b>	<b>8 804</b>	<b>9 083</b>
<b>Net effect of (losses)/gains on other comprehensive income for the year, net of taxation</b>	<b>(316)</b>	<b>707</b>
Exchange differences on translating foreign operations	(315)	713
Net effect of cash flow hedges	(5)	5
Taxation	4	(11)
<b>Total comprehensive income for the year</b>	<b>8 488</b>	<b>9 790</b>
<b>Attributable to:</b>		
Owners of Kumba	6 717	7 774
Minority interest	1 771	2 016
	<b>8 488</b>	<b>9 790</b>



## Condensed group statement of changes in equity

for the year ended

	Audited 31 Dec 2009 Rm	Audited 31 Dec 2008 Rm
<b>Total equity at the beginning of the year</b>	<b>8 506</b>	<b>3 397</b>
<b>Changes in share capital and premium</b>		
Shares (including treasury shares) issued during the year	132	80
Purchase of treasury shares	(60)	–
<b>Changes in reserves</b>		
Equity-settled share-based payment expense	112	88
Total comprehensive income for the year	6 717	7 774
Dividends paid	(6 478)	(3 819)
<b>Changes in minority interest</b>		
Total comprehensive income for the year	1 771	2 016
Dividends paid	(1 770)	(1 051)
Movement in minority interest in reserves	26	21
<b>Total equity at the end of the year</b>	<b>8 956</b>	<b>8 506</b>
<b>Comprising</b>		
Share capital and premium	208	136
Equity-settled share-based payment reserve	455	343
Foreign currency translation reserve	319	564
Cash flow hedge accounting reserve	(8)	4
Retained earnings	6 308	5 812
Shareholders' equity	7 282	6 859
– attributable to the owners of Kumba	6 780	6 365
– attributable to the minority interest in SIOC	502	494
Minority interest	1 674	1 647
<b>Total equity</b>	<b>8 956</b>	<b>8 506</b>
<b>Dividend (Rand per share)</b>		
Interim	7.20	8.00
Final*	7.40	13.00

\* The final dividend was declared subsequently to 31 December 2009 and has not been recognised as a liability in this condensed financial report. It will be recognised in shareholders' equity in the year to 31 December 2010.

## Condensed group cash flow statement

for the year ended

	Audited 31 Dec 2009 Rm	Audited 31 Dec 2008 Rm
<b>Cash flows from operating activities</b>	<b>2 666</b>	<b>6 013</b>
Cash generated from operations	12 622	14 519
Net finance costs paid	(287)	(401)
Taxation paid	(3 232)	(4 311)
Dividends paid	(6 437)	(3 794)
<b>Cash flows from investing activities</b>	<b>(3 902)</b>	<b>(2 487)</b>
Capital expenditure	(3 996)	(2 563)
Proceeds from the disposal of non-current assets	39	–
Investments in associates and joint ventures	(15)	(3)
Acquisition of business	(115)	–
Other	185	79
<b>Cash flows from financing activities</b>	<b>(1 683)</b>	<b>(668)</b>
Shares issued	132	80
Purchase of treasury shares	(60)	–
Dividends paid to minority shareholders	(1 811)	(1 076)
Net interest-bearing borrowings raised	56	328
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(2 919)</b>	<b>2 858</b>
Cash and cash equivalents at beginning of year	3 810	952
<b>Cash and cash equivalents at end of year</b>	<b>891</b>	<b>3 810</b>

## Headline earnings

for the year ended

	Audited 31 Dec 2009 Rm	Audited 31 Dec 2008 Rm
<b>Reconciliation of headline earnings</b>		
Attributable profit	6 975	7 208
Net (profit)/loss on disposal and scrapping of property, plant and equipment	(35)	12
Impairment of property, plant and equipment	–	50
Realisation of foreign currency translation reserve	–	19
	6 940	7 289
Taxation effect of adjustments	10	(9)
Minority interest in adjustments	5	(4)
<b>Headline earnings</b>	<b>6 955</b>	<b>7 276</b>
<b>Headline earnings (Rand per share)</b>		
Basic	21.82	23.02
Diluted	21.71	22.75
The calculation of basic and diluted earnings and headline earnings per share is based on the weighted average number of ordinary shares in issue as follows:		
Weighted average number of ordinary shares	318 742 724	316 140 923
Diluted weighted average number of ordinary shares	320 431 059	319 778 849

The adjustment of 1 688 335 shares to the weighted average number of ordinary shares is as a result of the expected vesting of share options already granted under the various share-based payment arrangements.

## Salient features and operating statistics

for the year ended

	Unaudited 31 Dec 2009	Unaudited 31 Dec 2008
<b>Share statistics ('000)</b>		
Total shares in issue	320 415	319 461
Weighted average number of shares	318 743	316 141
Diluted weighted average number of shares	320 431	319 779
Treasury shares	464	1 795
Treasury shares (Rand million)	62	86
<b>Market information</b>		
Closing share price (Rand)	305	162
Market capitalisation (Rand million)	97 727	51 753
Market capitalisation (US\$ million)	13 224	5 482
<b>Net asset value (Rand per share)</b>	22.73	21.63
<b>Capital expenditure (Rand million)</b>		
Incurred	3 996	2 563
Contracted	2 392	2 090
Authorised but not contracted	6 755	8 753
<b>Capital expenditure relating to Thabazimbi Mine to be financed by ArcelorMittal SA (Rand million)</b>		
Contracted	6	–
Authorised but not contracted	31	–
<b>Operating commitments</b>		
Operating lease commitments	123	144
Shipping services	99	395
<b>Economic information</b>		
Average Rand/US dollar exchange rate (Rand/US\$)	8.39	8.25
Closing Rand/US dollar exchange rate (Rand/US\$)	7.39	9.37
<b>Operating statistics (Mt)</b>		
Production	41.9	36.7
Sales	40.0	33.0
– export	34.2	24.9
– domestic	5.8	8.1
<b>Sishen Mine FOR unit cost</b>		
– Unit cost (Rand per tonne)	111.12	110.77
– Cash cost (Rand per tonne)	98.83	101.86
– Unit cost (US\$ per tonne)	13.24	13.43
– Cash cost (US\$ per tonne)	11.78	12.35

## Notes to the condensed consolidated 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 is listed on the JSE Limited.

The condensed consolidated financial report of Kumba and its subsidiaries for the year ended 31 December 2009 was authorised for issue in accordance with a resolution of the directors on 17 February 2010.

### 2. Basis of preparation and accounting policies

The condensed consolidated financial report for the year ended 31 December 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 financial report has been prepared in accordance with International Financial Reporting Standards (IFRS).

The condensed consolidated 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 financial report are consistent with those applied for the year ended 31 December 2008.

Kumba has elected to change its accounting policy in respect of the treatment of mineral waste stripping expenses in order to provide more reliable and relevant information about the effects of these costs on the entity's financial position and financial performance for the reporting periods, for the annual period commencing 1 January 2009.

#### Waste stripping expenses

The removal of overburden or waste ore is required to obtain access to the ore body. To the extent that the actual stripping ratio is higher than the average stripping ratio in the early years of a mine's production phase, the costs associated with this process are deferred and charged to operating costs using the expected average stripping ratio over the average life of the area being mined. This reflects the fact that waste removal is necessary to gain access to the ore body and therefore realise future economic benefit. The average life of mine stripping ratio is calculated as the number of tonnes of waste material expected to be removed during the life of mine, per tonne of ore mined. The average life of mine cost per tonne is calculated as the total expected costs to be incurred to mine the ore body divided by the number of tonnes expected to be mined.

The cost of stripping in any period will therefore be reflective of the average stripping rates for the ore body as a whole. However, where the pit profile is such that the actual stripping ratio is below the average life of mine stripping ratio in the early years no deferral takes place as this would result in recognition of a liability for which there is no obligation. Instead this position is monitored and when the cumulative calculation reflects a debit balance deferral commences.

During the development of a mine, before production commences, stripping expenses are capitalised as part of the investment in construction of the mine.

The change in accounting policy had no effect on the financial position or performance of the group due to the fact that Sishen Mine's pit profile is such that the actual stripping ratio is currently below the average life of mine stripping ratio and therefore no deferral is required.

The group adopted the following amendments to existing standards and a 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.

#### IFRS 7, Financial Instruments: Disclosures (amendment)

The amendment requires enhanced disclosures about the relative reliability of fair value measurements and the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. For Kumba the amendment results only in additional disclosures.

#### IFRS 2, Share-based Payment (amendment)

The amendment clarifies that vesting conditions are service conditions and performance conditions only. Kumba has adopted this amendment from 1 January 2009. The amendment does not have a material impact on the group's financial position or performance.

**The South African Institute of Chartered Accountants Circular 3/2009 on Headline Earnings**

This circular replaces circular 8/2007 and provides a link to IFRS and accounting policy choices through guidance on the calculation of headline earnings including rules for every IFRS. The adoption of this circular has had no impact on the group.

**Annual Improvements Project 2008**

As part of its annual improvements project, the International Accounting Standards Board (IASB) issued 35 amendments to various issued accounting standards. These amendments were primarily made to resolve conflicts and remove inconsistencies between standards, clarify the status of application guidance in standards, clarify existing IFRS requirements as well as conform the terminology used in standards with that used in other standards and to that more widely used. Kumba adopted these amendments in 2009, the application of which has not had an effect on the results, nor has it required any restatement of prior period results.

The accounting standards, amendments to issued accounting standards and interpretations, which are relevant to the group, but not yet effective at 31 December 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 R4.0 billion for the year ended 31 December 2009 (2008: R2.6 billion) for the expansion of its operations (R2.8 billion), mainly on the development of Kolomela Mine (R2.5 billion), and R1.2 billion (2008: R841 million) to maintain its operations, mainly for the acquisition of mining equipment for Sishen Mine.

A total of R1.3 billion was transferred from assets under construction to machinery, plant and equipment during the year.

**4. Share capital**

The group acquired 325 707 of its own shares through purchases on the JSE Limited during the year. The total amount paid to acquire the shares was R60 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.

On 21 August 2009 Kumba issued 953 660 shares to the management share option scheme. Options exercised under the management share option scheme during the year to 31 December 2009 resulted in 2 610 960 shares being issued (2008: 2 207 840 shares) with exercise proceeds of R132 million (2008: R75 million).

**5. Interest-bearing borrowings**

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

	Audited 31 Dec 2009 Rm	Audited 31 Dec 2008 Rm
Long-term interest-bearing borrowings	3 859	977
Short-term interest-bearing borrowings	55	2 881
<b>Total</b>	<b>3 914</b>	<b>3 858</b>
Cash and cash equivalents	(891)	(3 810)
<b>Net debt</b>	<b>3 023</b>	<b>48</b>
Total equity	8 956	8 506
Interest cover (times)	43	33

Movements in interest-bearing borrowings are analysed as follows:

	Audited 31 Dec 2009 Rm	Audited 31 Dec 2008 Rm
Opening balance as at 1 January	3 858	3 530
Debt raised	2 881	3 847
Repayment of borrowings	(2 825)	(3 519)
<b>Closing balance</b>	<b>3 914</b>	<b>3 858</b>

During the year Kumba secured a R3.2 billion term loan to refinance the revolving facility that was maturing in November 2009. To date R3.9 billion of the R8.6 billion term debt facilities raised in 2008 have been drawn down to finance Kumba's expansion. Kumba was not in breach of any of its covenants during the year. The group had undrawn short- and long-term borrowing facilities at 31 December 2009 of R8.1 billion.



## 6. Significant items included in operating profit

### Operating expenses

Operating expenses is made up as follows:

	Audited 31 Dec 2009 Rm	Audited 31 Dec 2008 Rm
Production costs	5 601	4 030
Movement in inventories	(600)	(289)
Finished products	(440)	(190)
Work-in-progress	(160)	(99)
<b>Cost of goods sold</b>	<b>5 001</b>	<b>3 741</b>
Selling and distribution costs	2 838	1 977
Cost of services rendered – shipping	2 697	2 085
Impairment of property, plant and equipment	–	50
Sublease rent received	(8)	(6)
<b>Operating expenditure</b>	<b>10 528</b>	<b>7 847</b>

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

	Audited 31 Dec 2009 Rm	Audited 31 Dec 2008 Rm
Employee expenses	1 672	1 376
Share-based payment expenses	142	106
Depreciation of property, plant and equipment	530	332
Impairment of property, plant and equipment	–	50
(Profit)/loss on disposal and scrapping of property, plant and equipment	(35)	12
Finance gains	(329)	(1 043)
– Gains on derivative financial instruments	(736)	(133)
– Foreign currency losses/(gains)	407	(910)
Operating (expenses)/profit capitalised	(181)	370
– Revenue	–	579
– Expenses	(181)	(209)

## 7. Acquisition of business

On 15 July 2009 Sishen Iron Ore Company (Pty) Limited (SIOC) acquired Taurus Investments SA, an Anglo American company incorporated in Luxembourg, for a cash consideration of R115 million (US\$14 million). This company was acquired to extend the benefit of the group's offshore operations by creating a European marketing hub to service the European and Asian markets as well as to establish collaboration with Anglo American plc's current operations in Luxembourg. Shortly after acquiring Taurus, the company was renamed Kumba International Trading SA.

The effective date of this transaction was 15 July 2009, as this is the date on which SIOC effectively obtained control by acquiring all the issued share capital.

The purchase consideration of US\$14 million was allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the effective date. No goodwill was recognised as part of the acquisition.

## 8. 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 services 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 operations 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. The revenue from external parties reported to the executive committee is measured in a manner consistent with that disclosed in the income statement.

## ANNUAL FINANCIAL RESULTS

for the year ended 31 December 2009

Year ended 31 December 2009:	Sishen Mine Rm	Thabazimbi Mine Rm	Shipping operations Rm	Total Rm
Revenue (from external customers)	19 473	543	3 392	23 408
EBIT	12 677	44	675	13 396
Depreciation	484	12	–	496
Total assets	724	240	–	964
Additions to non-current assets*	1 356	3	–	1 359

Year ended 31 December 2008:	Sishen Mine Rm	Thabazimbi Mine Rm	Shipping operations Rm	Total Rm
Revenue (from external customers)	18 308	640	2 412	21 360
EBIT	13 705	32	317	14 054
Depreciation	295	27	–	322
Total assets	620	80	–	700
Additions to non-current assets*	1 548	40	–	1 588

\* Other than financial instruments and deferred tax

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

	Audited 31 Dec 2009 Rm	Audited 31 Dec 2008 Rm
Total EBIT for reportable segments	13 396	14 054
Other segments	(516)	(541)
<b>Operating profit</b>	<b>12 880</b>	<b>13 513</b>
Net finance costs	(127)	(251)
<b>Profit before taxation</b>	<b>12 753</b>	<b>13 262</b>

The amounts disclosed with respect to total assets only represents finished goods inventory. Total assets are measured in a manner that is consistent with what is disclosed in the balance sheet. These assets are allocated based on the operations of the segment and the physical location of the asset. Non-current assets and current assets other than finished product inventory are not allocated to segments and therefore form part of the reconciliation to total assets.

A reconciliation of reportable segments' assets to total assets is provided as follows:

	Audited 31 Dec 2009 Rm	Audited 31 Dec 2008 Rm
Segment assets for reportable segments	964	700
Other segments	1 595	1 179
<b>Inventory per balance sheet</b>	<b>2 559</b>	<b>1 879</b>
Other current assets	3 217	6 619
<b>Non-current assets</b>	<b>12 031</b>	<b>8 205</b>
<b>Total assets</b>	<b>17 807</b>	<b>16 703</b>

Revenue from external customers is derived from mining, extraction, beneficiation, selling and shipping of iron ore.

The breakdown of the revenue earned from the sale of iron ore and rendering of shipping services is provided as follows:

	Audited 31 Dec 2009 Rm	Audited 31 Dec 2008 Rm
Sale of products	20 016	18 948
Shipping services	3 392	2 412
<b>Total revenue</b>	<b>23 408</b>	<b>21 360</b>

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.

	Audited 31 Dec 2009 Rm	Audited 31 Dec 2008 Rm
<b>Total revenue</b>	<b>23 408</b>	<b>21 360</b>
South Africa	1 359	1 341
Export	22 049	20 019
Europe	2 151	5 218
China	16 770	9 203
Rest of Asia	3 128	5 598

Non-current assets:

	Audited 31 Dec 2009 Rm	Audited 31 Dec 2008 Rm
<b>Total non-current assets</b>	<b>11 854</b>	<b>8 156</b>
South Africa	11 853	8 155
China	1	–
Rest of Africa	–	1

#### 9. Related party transactions

During the year 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.

During the year Kumba withdrew the short-term deposit facility that was placed with Anglo American SA Finance Limited (2008: R2.9 billion).

#### 10. Contingent liabilities

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 (subject to note 12). The bank guarantees for property acquisitions have been exercised during 2009.

#### 11. Legal proceedings

##### ArcelorMittal SA Limited (Mittal)

An award has been rendered in the arbitration between Mittal and Sishen Iron Ore Company (Pty) Ltd (SIOC), a subsidiary of Kumba. The arbitration related to Mittal's claim to be entitled to participate in the Sishen South Project currently under development by SIOC. On 27 October 2009, the Arbitration Panel issued an award in favour of SIOC and determined that Mittal is not entitled to participate in the Sishen South Project.

##### Lithos Corporation (Pty) Limited (Lithos)

Lithos is claiming US\$421 million from Kumba for damages. 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.

##### La Société des Mines de Fer du Sénégal Oriental (Miferso)

Kumba has initiated arbitration proceedings against Miferso and the Republic of Senegal under the Rules of Arbitration of the International Chamber of Commerce. The arbitration hearings took place during the third quarter of 2009. A ruling on the matter is expected during the first half of 2010.

#### 12. Post-balance sheet date events

On 6 January 2010, the SIOC Community Development SPV (Proprietary) Limited redeemed R336 million of the total preference shares of R458 million issued to Kumba Iron Ore Limited on 29 November 2006 as part of the group's funding of the acquisition of a 3% interest in Sishen Iron Ore Company (Pty) Limited. In preparing the condensed consolidated financial report, for the year ended 31 December 2009, the SIOC Community Development SPV (Proprietary) Limited is considered a special purpose entity and is consolidated for accounting purposes until the funding is fully redeemed.

During January 2010 Sishen Iron Ore Company (Pty) Limited issued financial guarantees to the Department of Mineral Resources (DMR) to the value of R567 million in respect of the environmental rehabilitation and decommissioning obligations of the group.

The directors are not aware of any other matter or circumstance arising since the end of the year 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 year under review in all material aspects with the code.

### 14. Independent audit opinion

The auditors, Deloitte & Touche, have issued their opinion on the consolidated annual financial statements for the year ended 31 December 2009. The audit was conducted in accordance with International Standards on Auditing. They have issued an unqualified audit opinion. A copy of their audit report is available for inspection at the company's registered office. These condensed consolidated financial statements have been derived from the consolidated annual financial statements and are consistent in all material respects with the consolidated annual financial statements.

*On behalf of the Board*

**PL Zim**  
Chairman

**CI Griffith**  
Chief Executive Officer

17 February 2010  
Pretoria

## Notice of final cash dividend

At its Board meeting on 17 February 2010 the directors declared a final cash dividend of R7.40 per share on the ordinary shares from profits accrued during the year ended 31 December 2009. The salient dates are as follows:

- Last day for trading to qualify and participate in the final dividend  
(and change of address or dividend instructions) Friday, 5 March 2010
- Trading ex dividend commences Monday, 8 March 2010
- Record date Friday, 12 March 2010
- Dividend payment date Monday, 15 March 2010

Share certificates may not be dematerialised or rematerialised between Monday, 8 March 2010 and Friday, 12 March 2010, both days inclusive.

*By order of the Board*

**VF Malie**  
Company secretary

17 February 2010  
Pretoria

### Registered office

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Building 2B  
124 Akkerboom Road  
Centurion, 0157  
Republic of South Africa  
**Tel:** +27 12 683 7000  
**Fax:** +27 12 683 7009

### Transfer secretaries

Computershare Investor Services (Pty) Limited  
70 Marshall Street  
Republic of South Africa  
PO Box 61051, Marshalltown, 2107

### Sponsor to Kumba

Rand Merchant Bank (a division of FirstRand Bank Limited)

### Directors

*Non-executive* – PL Zim (chairman), GS Gouws, PB Matlare, DD Mokgatle, AJ Morgan, ZBM Bassa, D Weston

*Executive* – CI Griffith (CEO), VP Uren (CFO)

**Company secretary:** VF Malie

**JSE code:** KIO

**ISIN:** ZAE000085346

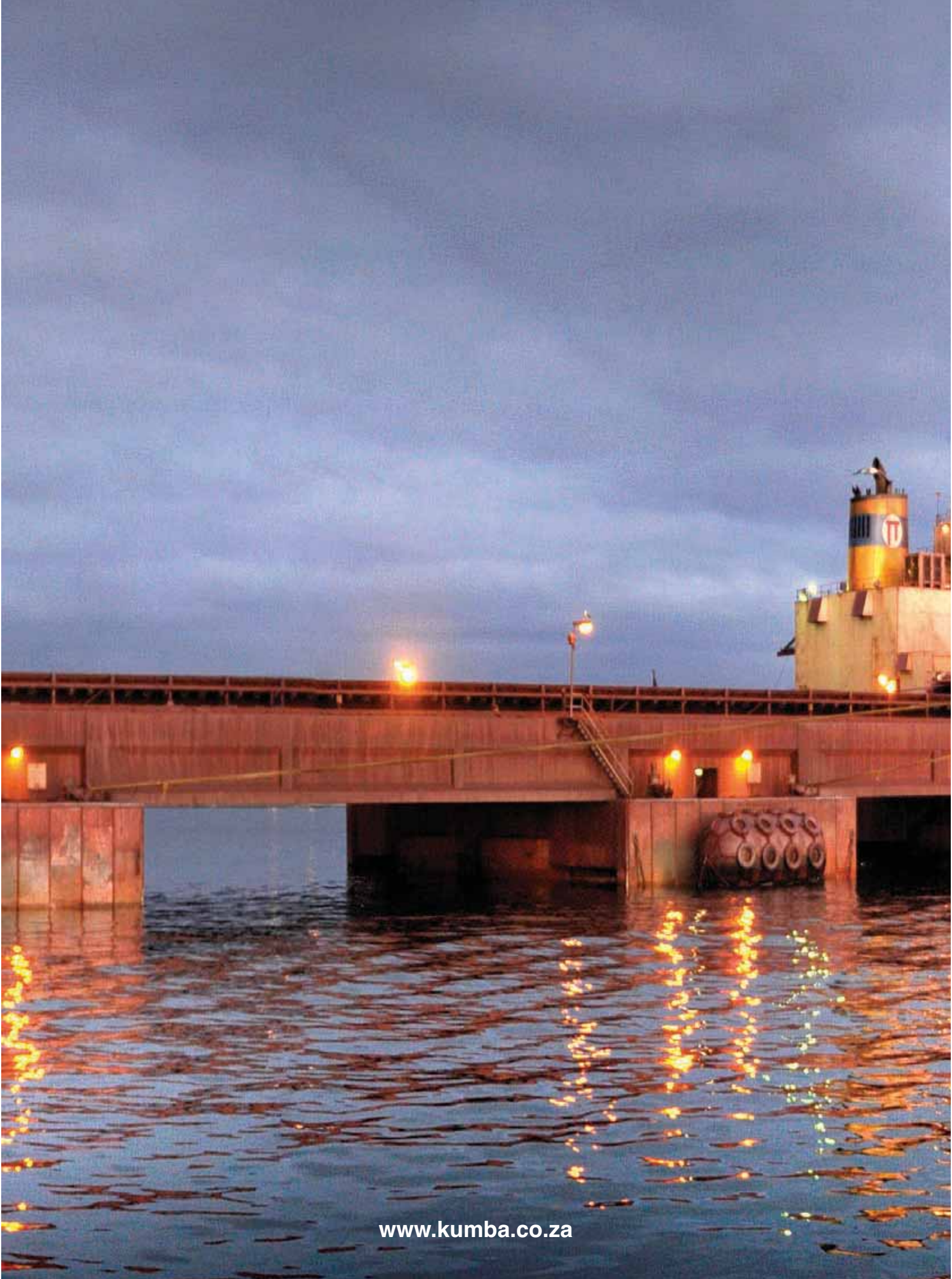
**Company registration number:** No 2005/015852/06

Incorporated in the Republic of South Africa  
("Kumba" or "the company" or "the group")

Further financial results available at [www.kumba.co.za](http://www.kumba.co.za)







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