



# INTERIM FINANCIAL RESULTS

for the six months  
ended 30 June 2010



**KUMBA IRON ORE**

A member of the Anglo American plc group

# **REVIEWED CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT**

for the six months ended 30 June 2010



## highlights

### HEADLINE EARNINGS

**90% ↑ R6.5 billion**

### INTERIM CASH DIVIDEND

**R13.50** per share

### SISHEN MINE PRODUCTION

**17% ↑ 21.1Mt**

### EXPORT SALES VOLUMES

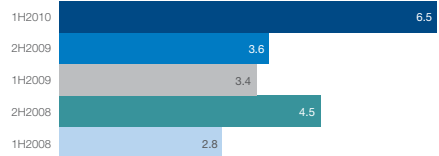
**10% ↑ 18.8Mt**

SISHEN MINE UNIT CASH COST  
Increase contained  
below **4%**

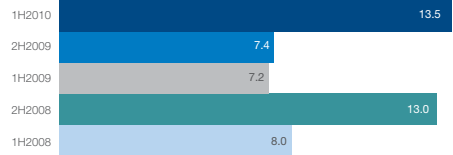
### KOLOMELA MINE DEVELOPMENT

**ON SCHEDULE and  
ON BUDGET**

### HEADLINE EARNINGS (R billion)



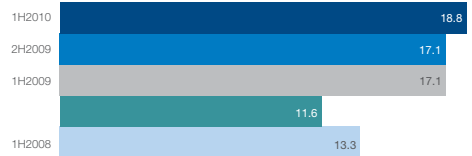
### DIVIDEND (R/share)



### SISHEN MINE PRODUCTION (Mt)



### EXPORT SALES VOLUMES (Mt)



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



# Commentary

## Highlights

At R6.5 billion Kumba's headline earnings for the six months ended 30 June 2010 were 90% above the R3.4 billion achieved in the first half of 2009. This operational and financial performance was due to the implementation of the group's production and sales growth plans and cost containment initiatives, notwithstanding the legal issues which arose in the first half of 2010 and are referred to in note 11 to the reviewed condensed consolidated interim financial report. Kumba continues to deliver increasing value to its shareholders. Through capital appreciation and substantial dividend cash returns to its Black Economic Empowerment ('BEE') shareholders, Sishen Iron Ore Company (Pty) Limited ('SIOC') has contributed towards its commitments to South Africa and empowerment. Attributable and headline earnings for the period were R20.27 and R20.28 per share respectively, on which an interim cash dividend of R13.50 per share has been declared.

Sishen Mine's production increased by 17% year-on-year or 3.1Mt to 21.1Mt, principally through the Jig plant ramping up to name plate capacity, and remains on track to achieving an overall increase of 5% in production volumes for 2010.

The development of Kolomela Mine in the Northern Cape continues and overall project progress remains on budget and on schedule to deliver initial production during the first half of 2012.

Operating profit increased by 64% from R6.8 billion to R11.2 billion improving the group's operating profit margin from 57% in 2009 to 63%. The operating profit achieved was impacted by the implementation of the South African mining royalty effective from 1 March 2010 as well as the relative strengthening of the Rand against the US Dollar. Operating expenses (excluding the royalty expense of R546 million) increased by 18% to R6.1 billion. Sishen Mine's unit cash cost increase was held below 4%. The increase in production cost due to the 23% increase in waste mining was more than offset by the benefit of increased production. Sishen Mine's unit cash cost for the six months was R102.71 (US\$13.66) per tonne compared to R98.83 (US\$11.78) per tonne at the end of 2009.

The group's strong cash flow generation has enabled the declaration of an interim and final dividend since listing on the JSE Limited in November 2006, returning R14.0 billion to shareholders to date. This return of cash to shareholders has assisted in reducing the acquisition debt of the BEE shareholders of SIOC. Less than four years after its establishment, using the dividends received from SIOC, the SIOC Community Development Trust will be in a position to fully redeem the R458 million preference shares issued to pay for its 3% interest in SIOC in the third quarter of 2010, well ahead of the original projections. This will result in the trust holding an unencumbered 3% interest in SIOC (now valued at R3.8 billion based on Kumba's share price of R316 on 30 June 2010) and the ability to apply all future dividend cash flows to progress its community development objectives. This is a significant milestone for BEE and a very worthy initiative to empower our key communities where we operate. In future Kumba will deconsolidate this 3% shareholding, once the preference shares are fully redeemed.

## Safety performance

On 23 February 2010 we regrettably suffered one fatality when Mr Bosiamane Moses Machacha, an employee at Kolomela Mine, was fatally injured during road construction on the Witsand access road to Kolomela Mine. The Board and management once again extend our sincere condolences to the family, friends and colleagues of Mr Machacha.

Kumba remains committed to zero harm at all the group's sites. Kumba's overall safety performance improvements suffered a number of setbacks during the first quarter of 2010, however, this trend has reversed during the second quarter. The group recorded nine lost-time injuries ('LTI's') for the period, which has resulted in the lost-time injury frequency rate ('LTIFR') of the group increasing to 0.11 compared to the 0.07 achieved in 2009. Sishen Mine recorded five LTI's, Thabazimbi Mine three LTI's and there was a single LTI at Kolomela Mine. Since that LTI, Kolomela Mine has achieved 3.8 million LTI-free man-hours to date. Sishen and Thabazimbi mines worked the full six months without a fatality. Sishen Mine has now worked for 26 months without a fatality and Thabazimbi Mine has been fatality free for over seven years.

## Market overview

The increased demand for iron ore during 2010 is underpinned by higher world crude steel production, which is estimated to increase to 1.37 billion tonnes in 2010, a 4.6% increase year-on-year. China's crude steel production during the first five months of 2010 increased by 21% year-on-year, whilst iron ore imports into China over the same period increased by 4.1% year-on-year. This increase in iron ore imports was mainly impacted by the re-opening of many domestic iron ore mines in China, driven by the much improved iron ore spot prices, higher freight rates and an increasing demand for iron ore in the traditional markets of Europe, Japan and Korea on the back of improved market conditions, which further reduced the seaborne iron ore available to China.

Having assessed industry developments, Kumba has moved to implement quarterly pricing for its long-term contracts. The majority of export sales volumes are currently committed to long-term contracts and the remainder is sold at index prices mainly to annual customers and as additional volume to long-term customers in China. Quarterly benchmark prices for the April-June quarter have been negotiated on the basis of average index prices in the period December 2009 to February 2010, and have increased on average 100% compared to 2009/10 iron ore year benchmark prices. However, a pricing mechanism for future quarters is still under negotiation with customers and changing market conditions have led to significant uncertainty in iron ore prices in the short-term.

## Operational performance

Total tonnes mined at Sishen Mine increased by 21% from 59.8Mt in 2009 to 72.1Mt, of which waste mined was 46.1Mt, an increase of 23% from the first six months of 2009. This increase in waste mining activity is undertaken to mitigate decreasing geological quality in the pit and to cater for increased production. Total production at Sishen Mine increased by 17% from

18.0Mt in 2009 to 21.1Mt. Production from the Dense Media Separation ('DMS') plant increased by 1.1Mt to 14.7Mt due to an improved plant yield. The ramp up of production from the Jig plant continues as planned and increased by 7% from the 6.0Mt achieved in the second half of 2009 to 6.4Mt, and now contributes 30% of Sishen Mine's production. The Jig plant remains on schedule to produce between 12.5Mt – 13.0Mt during 2010.

The group increased total sales volumes by 10% from 20.0Mt in 2009 to 21.9Mt. Export sales volumes from Sishen Mine for the six months increased by 1.7Mt or 10% from 17.1Mt in 2009 to 18.8Mt on the back of increasing demand from our traditional markets. Export sales volumes into Europe, Japan and Korea recovered to 7.9Mt compared to the 2.8Mt in the first half of 2009. Export sales volumes into China of 10.8Mt totalled 57% of total export volumes for the six months, 24% down from the 14.3Mt in the first half of 2009 as sales returned to traditional markets in Europe, Japan and Korea. Aggregate domestic sales volumes for the first half of 2010 were 3.1Mt, up 0.2Mt from 2009 first half sales. During the first half of 2010, Kumba sold 5.2Mt (or 28% of export volumes) at index prices taking advantage of higher prices during this period.

Volumes railed on the Sishen-Saldanha export channel increased by 8% to 18.2Mt (including 0.6Mt railed to Saldanha Steel). This performance was impacted by the industrial action at Transnet and a significant derailment in April 2010 which together accounted for approximately 1.2Mt of "lost" export sales volumes. Kumba implemented contingency plans to aid the railing and loading of iron ore for export throughout the period of industrial action at Transnet. These plans were successful in partially mitigating the impact of the strike action upon Kumba's operations. The stock on hand at the Saldanha port and 17.6Mt railed during the period enabled Kumba to load 19.1Mt at the port destined for the export market.

Waste mining at Thabazimbi Mine increased by 152% to 14.1Mt as new pits are opened as part of the extension of the life of mine to 2016. Production at Thabazimbi Mine reduced by 27% to 0.8Mt for the six months, in line with the progression towards the end of the life of the mine. Domestic sales from the mine were flat due to the off-take requirements of ArcelorMittal South Africa Limited ('ArcelorMittal') and logistics constraints.

### Financial results

The group's total mining revenue (excluding shipping operations – R1.6 billion) of R16.2 billion for the period was 55% higher than the R10.4 billion of the same period of 2009. This performance was achieved on the back of an average increase of 100% in contract iron ore export prices for the second quarter of 2010, a 10% increase in total sales volumes, and the sale of 5.2Mt into China at index prices that traded on average above contract prices and peaked above US\$200 per tonne in April 2010.

Operating profit of R11.2 billion was achieved for the six months, an increase of R4.4 billion or 64% from the R6.8 billion during the first half of 2009. Kumba's operating profit margin of 63% for the six months (68% from mining activities), increased by 6% from 57% (62% from mining activities) in 2009.

Operating profit increased by 64% or R4.4 billion, principally as a result of:

- A weighted average increase of 73% in iron ore export prices, which added R8.1 billion to operating profit and a 10% growth in export sales volumes contributed R1.0 billion.

This increase was offset by:

- The strengthening of the average exchange rate of the Rand to the US Dollar (average exchange rates – R7.52/US\$1.00 for the first six months of 2010 compared with R9.16/US\$1.00 for the same period of 2009), which reduced operating profit by R3.1 billion;
- A R1.0 billion or 23% increase in operating expenses (excluding shipping expenses) as a result of the 23% and 152% increase in waste mined at Sishen and Thabazimbi mines respectively, a 17% increase in volumes produced, and an 8% increase in volumes railed which was compounded by an increase in logistics costs. This increase was further fuelled by inflationary pressures and significant increases in the cost of diesel and electricity;
- The commencement of the mining royalty payable for the four months from March to June 2010 at an effective rate of 4.8% of free-on-rail ('FOR') iron ore revenue, which added R546 million to operating expenditure; and
- A R64 million decrease in profit from shipping operations. Total tonnes shipped by Kumba decreased by 2.9Mt from 12.1Mt to 9.2Mt for the first six months of 2010.

Notwithstanding the increase in activities, including a 23% increase in waste mining, Kumba reduced Sishen Mine's unit cash cost from R104.12 during the first half of 2009 to R102.71 for the same period of 2010. This reduction was aided by a 17% increase in production over the first half of 2009. The unit cash cost for the period has been kept flat in real terms when compared to the R98.83 achieved for the full 2009 year. Waste mining is expected to increase by a further 25% in the second half of 2010 which will add upward pressure to unit costs. However, to mitigate this, Kumba remains focused on achieving further benefit from successful cost management, operational efficiency and revenue enhancements initiatives from its asset optimisation programmes and participation in the Anglo Supply Chain procurement organisation. Cost control continues to be a major focus of the group as it faces the challenges of increased waste mining at its operations. The flagship Sishen Mine transformation programme ('Bokamoso') has delivered further mining operational efficiency gains and contributed to the increased production of the mine through improvements in the DMS and Jig plant yields during the period and reaping the ongoing benefits of prior years through the reduction in the maintenance shutdown period of the DMS plant. Further value has been extracted by Kumba through its marketing initiatives to enhance the premia achieved on its niche lump products, capturing the differential between index export prices and benchmark contract prices by selling 5.2Mt of uncommitted Sishen Mine production at index prices, professionalising its shipping operations and deriving incremental value through benchmark contract price negotiations relative to market movements. These asset optimisation and procurement initiatives have delivered R917 million in increased revenues and price benefits, operating cost containment of R292 million and reduction in capital expenditure of R45 million during the period.

The group continued to generate substantial cash from its operations, with R9.5 billion generated during the six months. These cash flows were used to pay taxation of R2.6 billion and aggregate dividends of R3.0 billion during the six months. Capital expenditure of R1.5 billion was incurred, of which R233 million was to maintain operations and R1.2 billion to expand operations, mainly on Kolomela Mine. At 30 June 2010 the group had a net debt position of R918 million (R3.0 billion at the end of 2009). Interest cover remained strong at 53 times (43 times at the end of 2009).

#### **Kolomela Mine**

For the first six months of 2010, 8.2Mt (4.0Mt in the second half of 2009) of waste material has been mined at Kolomela Mine in the process of developing the first pit at a capitalised cost of R226 million (R181 million in 2009). The project has seen significant progress during the period with key deliverables and major construction elements well advanced. Whilst the construction activities are gaining momentum, the safety focus on site remains the top priority with an ongoing intensive programme to entrench the zero harm objective.

R4.4 billion of capital expenditure (including R407 million of capitalised mining operating expenses) has been incurred to date, of which R1.1 billion has been incurred during the six months ended 30 June 2010. This includes R226 million mining operating expenses incurred during the six months.

#### **Mineral resources and ore reserves**

There have been no material changes to the ore reserves as disclosed in the 2009 Kumba Annual Report. Kumba is engaged in the improvement of the information and models, which form the basis of the annual mineral resource and reserve estimation.

#### **Prospects**

Due to the large gap between current index prices which are lower than the implied July-September 2010 quarterly benchmark prices, uncertainty exists around future export iron ore pricing mechanisms and price levels for iron ore. In an operating environment where steel production rates are being reduced it is uncertain whether increased iron ore prices under the quarterly pricing mechanism can be passed to customers. Chinese steel production and iron ore imports in the second half of 2010 are expected to be marginally below levels achieved during the first half as Chinese steel mills prioritise cost over productivity and therefore focus on the use of domestic iron ore. The momentum of the recovery of Kumba's traditional markets is slowing. Export sales volumes into China are expected to normalise at around 60% of the geographical sales mix.

Domestic sales volumes from Thabazimbi Mine remain dependent on the off-take requirements from ArcelorMittal. Domestic sales volumes from Sishen Mine to ArcelorMittal remain under dispute and the further supply of iron ore is dependent on arriving at an acceptable interim pricing agreement.

Waste mining at all the operational sites is anticipated to increase, which will put upward pressure on unit cash costs of production. Kumba remains committed to a 5% increase in annual production volumes during 2010, with the continued ramp up of the Jig plant.

Relative to the US Dollar, the South African Rand has strengthened a further 4% from the end of 2009. Kumba's operating profit remains highly sensitive to the Rand/US Dollar exchange rate. The introduction of the mining royalty during the first half of 2010, which was in place for four months, will increase as it is accounted for the full six months of the second half of 2010.

Management focus will be on optimising the asset base, operational and cost efficiencies and the group's production and sales volume growth plans to lessen the adverse effects of the stronger Rand, mining royalty and the cost pressures driven by the increase in waste mining.

#### **Change in directorate**

The Board of directors of Kumba announced the appointment of Mr Godfrey Gomwe as a non-executive director with effect from 17 May 2010. Mr Gomwe is an executive director of Anglo American South Africa Limited and he serves on a number of Anglo American South Africa Limited operational boards and Thebe Investment Corporation (Pty) Limited as a non-executive director.

## Production and sales report for the six months ended 30 June 2010

Total iron ore production increased by 6% to 10.4Mt in the second quarter from a year earlier and by 15% to 21.9Mt for the six months ended 30 June 2010. This was due mainly to the 30% increase to 3.1Mt production delivered by the Jig plant during the quarter and the 45% increase to 6.4Mt for the six months, as well as an 8% increase to 14.6Mt in performance from the DMS plant for the six months.

Export sales for the second quarter of 2010 of 9.5Mt decreased by 14% from a year earlier. This was due to the record sales achieved of 11.0Mt in 2009 as lost volumes from the first quarter were sold in the second quarter by redirecting volumes to China. Total export sales for the six months of 18.8Mt were 10% higher than the 17.1Mt sold during the same period in 2009. The increase in export sales reflects the strengthening of demand from traditional markets and China.

### Six month overview

'000 tonnes	Unaudited Year-to-date		
	30 June 2010	30 June 2009	% change
<b>Production summary</b>			
Iron ore	21 935	19 147	15
– Lump	13 214	11 671	13
– Fines	8 721	7 476	17
Mine production	21 935	19 147	15
– Sishen Mine	21 078	18 032	17
DMS plant	14 655	13 617	8
Jig plant	6 423	4 415	45
– Thabazimbi Mine	857	1 115	(23)
<b>Sales summary</b>			
Total	21 946	19 997	10
– Sishen Mine	21 059	19 098	10
Export sales	18 817	17 074	10
Domestic sales	2 242	2 024	11
– Thabazimbi Mine	887	899	(1)

### Quarterly overview

'000 tonnes	Unaudited Quarter ended			Unaudited Quarter ended		
	30 June 2010	30 June 2009	% change	31 March 2010	31 March 2009	% change
<b>Production summary</b>						
Iron ore	10 446	9 824	6	11 489	9 323	23
– Lump	6 312	6 076	4	6 902	5 595	23
– Fines	4 134	3 748	10	4 587	3 728	23
Mine production	10 446	9 824	6	11 489	9 323	23
– Sishen Mine	10 072	9 339	8	11 006	8 693	27
DMS plant	6 977	6 964	–	7 678	6 653	15
Jig plant	3 095	2 375	30	3 328	2 040	63
– Thabazimbi Mine	374	485	(23)	483	630	(23)
<b>Sales summary</b>						
Total	11 014	12 474	(12)	10 932	7 523	45
– Sishen Mine	10 595	12 002	(12)	10 464	7 096	47
Export sales	9 502	11 018	(14)	9 315	6 056	54
Domestic sales	1 093	984	11	1 149	1 040	10
– Thabazimbi Mine	419	472	(11)	468	427	10

## Condensed group balance sheet

as at

Rm	Notes	Reviewed 30 June 2010	Restated 30 June 2009	Restated 31 December 2009
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	3	12 800	9 267	11 568
Biological assets		7	7	7
Investments in associates and joint ventures		30	11	20
Investments held by environmental trust		313	258	279
Long-term prepayments		20	33	28
Deferred tax assets		233	16	129
		<b>9 961</b>	<b>8 257</b>	<b>5 776</b>
<b>Current assets</b>				
Inventories		2 672	1 905	2 559
Trade and other receivables		5 025	1 195	2 195
Current tax asset		–	–	131
Cash and cash equivalents		2 264	5 157	891
<b>Total assets</b>		<b>23 364</b>	<b>17 849</b>	<b>17 807</b>
<b>Equity</b>				
Shareholders' equity	4	11 518	6 013	7 308
Non-controlling interest		2 675	1 374	1 648
<b>Total equity</b>		<b>14 193</b>	<b>7 387</b>	<b>8 956</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Interest-bearing borrowings	5	3 182	2 678	3 859
Provisions		492	410	468
Deferred tax liabilities		2 332	2 283	2 282
		<b>3 165</b>	<b>5 091</b>	<b>2 242</b>
<b>Current liabilities</b>				
Short-term interest-bearing borrowings	5	–	2 862	55
Short-term provisions		3	126	4
Trade and other payables		2 849	1 649	2 161
Current tax liabilities		313	454	22
<b>Total liabilities</b>		<b>9 171</b>	<b>10 462</b>	<b>8 851</b>
<b>Total equity and liabilities</b>		<b>23 364</b>	<b>17 849</b>	<b>17 807</b>



## Condensed group income statement

for the period ended

Rm	Notes	Reviewed 6 months 30 June 2010	Restated 6 months 30 June 2009	Restated 12 months 31 December 2009
Revenue		17 826	11 987	23 408
Operating expenses	6	(6 619)	(5 166)	(10 528)
<b>Operating profit</b>		<b>11 207</b>	<b>6 821</b>	<b>12 880</b>
Finance income		58	157	286
Finance costs		(124)	(230)	(413)
<b>Profit before taxation</b>		<b>11 141</b>	<b>6 748</b>	<b>12 753</b>
Taxation		(3 003)	(2 404)	(3 949)
<b>Profit for the period</b>	7	<b>8 138</b>	<b>4 344</b>	<b>8 804</b>
<b>Attributable to:</b>				
Owners of Kumba		6 489	3 436	6 992
Non-controlling interest		1 649	908	1 812
		<b>8 138</b>	<b>4 344</b>	<b>8 804</b>
<b>Earnings per share for profit attributable to the owners of Kumba (Rand per share)</b>				
Basic		20.27	10.81	21.94
Diluted		20.19	10.73	21.82

## Condensed group statement of other comprehensive income

for the period ended

Rm	Reviewed 6 months 30 June 2010	Restated 6 months 30 June 2009	Restated 12 months 31 December 2009
<b>Profit for the period</b>	<b>8 138</b>	<b>4 344</b>	<b>8 804</b>
<b>Other comprehensive income for the period, net of tax</b>	<b>88</b>	<b>(237)</b>	<b>(316)</b>
Exchange differences on translating foreign operations	87	(228)	(315)
Net effect of cash flow hedges	1	(15)	(5)
Taxation	–	6	4
<b>Total comprehensive income for the period</b>	<b>8 226</b>	<b>4 107</b>	<b>8 488</b>
<b>Attributable to:</b>			
Owners of Kumba	6 546	3 248	6 734
Non-controlling interest	1 680	859	1 754
	<b>8 226</b>	<b>4 107</b>	<b>8 488</b>

## Condensed group statement of changes in equity

for the period ended

Rm	Reviewed 6 months 30 June 2010	Restated 6 months 30 June 2009	Restated 12 months 31 December 2009
<b>Total equity at the beginning of the period</b>	<b>8 956</b>	<b>8 506</b>	<b>8 506</b>
Change in accounting policy – share-based payment classification:			
Increase in non-controlling interest	–	1	1
Decrease in retained income	–	(1)	(1)
<b>Total equity at the beginning of the period – as restated</b>	<b>8 956</b>	<b>8 506</b>	<b>8 506</b>
<b>Changes in share capital and premium</b>			
Shares (including treasury shares) issued during the period	71	65	132
Purchase of treasury shares	(103)	(53)	(60)
<b>Changes in reserves</b>			
Equity-settled share-based payment	86	54	118
Vesting of shares under employee share schemes	(15)	–	–
Total comprehensive income for the period	6 546	3 248	6 734
Dividends paid	(2 375)	(4 163)	(6 478)
<b>Changes in non-controlling interest</b>			
Total comprehensive income for the period	1 680	859	1 754
Dividends paid	(648)	(1 138)	(1 770)
Movement in non-controlling interest in reserves	(5)	9	20
<b>Total equity at the end of the period</b>	<b>14 193</b>	<b>7 387</b>	<b>8 956</b>
<b>Comprising:</b>			
Share capital and premium	176	148	208
Equity-settled share-based payment reserve	546	401	465
Foreign currency translation reserve	388	388	319
Cash flow hedge accounting reserve	(7)	(9)	(8)
Retained earnings	10 415	5 085	6 324
Shareholders' equity	11 518	6 013	7 308
– attributable to the owners of Kumba	10 715	5 601	6 814
– attributable to the non-controlling interest in SIOC	803	412	494
Non-controlling interest	2 675	1 374	1 648
<b>Total equity</b>	<b>14 193</b>	<b>7 387</b>	<b>8 956</b>
<b>Dividend (Rand per share)</b>			
Interim*	13.50	7.20	7.20
Final	–	–	7.40

\* The interim dividend was declared after 30 June 2010 and has not been recognised as a liability in this reviewed condensed consolidated interim financial report. It will be recognised in shareholders' equity in the year to 31 December 2010.

## Condensed group cash flow statement

for the period ended

Rm	Reviewed 6 months 30 June 2010	Restated 6 months 30 June 2009	Restated 12 months 31 December 2009
<b>Cash flows from operating activities</b>	<b>4 301</b>	<b>2 262</b>	<b>2 788</b>
Cash generated from operations	9 499	7 636	12 744
Net finance costs paid	(191)	(125)	(287)
Taxation paid	(2 633)	(1 112)	(3 232)
Dividends paid	(2 374)	(4 137)	(6 437)
<b>Cash flows from investing activities</b>	<b>(1 468)</b>	<b>(1 483)</b>	<b>(4 087)</b>
Capital expenditure	(1 457)	(1 500)	(3 996)
Proceeds from the disposal of non-current assets	1	23	39
Investments in associates and joint ventures	(12)	(6)	(15)
Acquisition of business	–	–	(115)
<b>Cash flows from financing activities</b>	<b>(1 442)</b>	<b>530</b>	<b>(1 683)</b>
Share capital issued	56	65	132
Purchase of treasury shares	(103)	(53)	(60)
Dividends paid to non-controlling shareholders	(663)	(1 164)	(1 811)
Net interest-bearing borrowings (repaid)/raised	(732)	1 682	56
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>1 391</b>	<b>1 309</b>	<b>(2 982)</b>
Cash and cash equivalents at beginning of period	891	3 810	3 810
Effects of exchange rates on cash and cash equivalents	(18)	38	63
<b>Cash and cash equivalents at end of period</b>	<b>2 264</b>	<b>5 157</b>	<b>891</b>

## Headline earnings

for the period ended

Rm	Reviewed 6 months 30 June 2010	Restated 6 months 30 June 2009	Restated 12 months 31 December 2009
<b>Reconciliation of headline earnings</b>			
Attributable profit	6 489	3 436	6 992
Net loss/(profit) on disposal or scrapping of property, plant and equipment	2	(22)	(35)
Net loss on disposal of investment	2	–	–
	<b>6 493</b>	<b>3 414</b>	<b>6 957</b>
Taxation effect of adjustments	(1)	6	10
Non-controlling interest in adjustments	–	3	5
<b>Headline earnings</b>	<b>6 492</b>	<b>3 423</b>	<b>6 972</b>
<b>Headline earnings (Rand per share)</b>			
Basic	20.28	10.77	21.87
Diluted	20.19	10.69	21.76
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	320 194 536	317 890 540	318 742 724
Diluted weighted average number of ordinary shares	321 474 211*	320 125 852	320 431 059

\* The adjustment of 1 279 675 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 period ended

	Unaudited 6 months 30 June 2010	Unaudited 6 months 30 June 2009	Unaudited 12 months 31 December 2009
<b>Share statistics ('000)</b>			
Total shares in issue	321 545	319 461	320 415
Weighted average number of shares	320 195	317 891	318 743
Diluted weighted average number of shares	321 474	320 126	320 431
Treasury shares	709	763	464
Treasury shares (Rm)	150	75	62
<b>Market information</b>			
Closing share price (R)	316	181	305
Market capitalisation (Rm)	101 608	57 822	97 727
Market capitalisation (US\$m)	13 247	7 408	13 224
<b>Net asset value (Rand per share)</b>	<b>35.82</b>	<b>18.82</b>	<b>22.81</b>
<b>Capital expenditure (Rm)</b>			
Incurred	1 457	1 500	3 996
Contracted	1 948	2 616	2 392
Authorised but not contracted	6 456	6 676	6 755
<b>Capital expenditure relating to Thabazimbi Mine to be financed by ArcelorMittal SA (Rm)</b>			
Contracted	4	2	6
Authorised but not contracted	31	12	31
<b>Operating commitments</b>			
Operating lease commitments	113	132	123
Shipping services	114	193	99
<b>Economic information</b>			
Average Rand/US dollar exchange rate (ZAR/US\$)	7.52	9.16	8.39
Closing Rand/US dollar exchange rate (ZAR/US\$)	7.67	7.81	7.39
<b>Operating statistics (Mt)</b>			
Production	21.9	19.1	41.9
– Sishen Mine	21.1	18.0	39.4
– Thabazimbi Mine	0.8	1.1	2.5
Sales	21.9	20.0	40.0
– Export	18.8	17.1	34.2
– Domestic	3.1	2.9	5.8
Sishen Mine	2.2	2.0	4.0
Thabazimbi Mine	0.9	0.9	1.8
<b>Sishen Mine FOR unit cost</b>			
– Unit cost (Rand per tonne)	116.50	114.98	111.12
– Cash cost (Rand per tonne)	102.71	104.12	98.83
– Unit cost (US\$ per tonne)	15.49	12.55	13.24
– Cash cost (US\$ per tonne)	13.66	11.37	11.78

# Notes to the reviewed 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, marketing, sale and shipping of iron ore. The group has its primary listing on the JSE Limited.

The reviewed condensed consolidated interim financial report of Kumba and its subsidiaries for the six months ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 21 July 2010.

## 2. Basis of preparation and accounting policies

The reviewed condensed consolidated interim financial report for the six months ended 30 June 2010 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' and the AC500 standards as issued by the Accounting Practices Board. The reviewed condensed consolidated interim financial report should be read in conjunction with the audited consolidated annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with International Financial Reporting Standards ('IFRS').

The reviewed 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 reviewed condensed consolidated interim financial report are consistent with those applied for the year ended 31 December 2009.

The group adopted the following amendments to existing standards with effect from 1 January 2010.

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

In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and Treasury Share Transactions' into the standard, the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The amended standard provides that an entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets is now required to recognise the goods or services received in its financial statements.

The amendment does not affect the classification of share-based payments in the consolidated financial statements, but has an impact on the classification of share-based payments in the stand-alone accounts of Kumba's subsidiary, Sishen Iron Ore Company (Pty) Limited, with a consequential impact on the non-controlling interest reported in the consolidated financial statements.

The amendments to the standard have been applied retrospectively to all employee share incentive schemes outstanding at the reporting date. The effect on earnings and headline earnings per share is an increase of 1.3 cents and 0.2 cents for the six months ended 30 June 2010 and 2009 respectively and an increase in headline earnings per share of 5.2 cents for the year ended 31 December 2009.

The effect on earnings and equity is disclosed in the table below:

Rm	Reviewed 6 months 30 June 2010	Restated 6 months 30 June 2009	Restated 12 months 31 December 2009
Decrease in earnings attributable to non-controlling interest for the period	4	1	17
Increase in earnings attributable to the owners of Kumba for the period	4	1	17
Cumulative decrease in total non-controlling interest disclosed in equity	36	7	26
Cumulative increase in equity-settled share-based payment reserve disclosed in equity	16	7	10
Cumulative increase in retained earnings disclosed in equity	20	–	16
Increase in opening non-controlling interest disclosed in equity	–	1	1
Decrease in opening retained earnings disclosed in equity	–	1	1

### Annual Improvements Project 2008 and 2009

As part of its annual improvements project, the International Accounting Standards Board ('IASB') issued a single amendment in 2008 and 15 amendments in 2009 to various issued accounting standards, effective for the reporting period commencing 1 January 2010. These amendments consist of various necessary, but non-urgent, amendments to issued accounting standards and interpretations that will not be part of another major project of the IASB. Kumba adopted these amendments in 2010, the application of which has not had an effect on the reported results, with the exception of the amendment to IAS 7, 'Statement of Cash Flows'.

### IAS 7, Statement of Cash Flows (amendment)

The guidance provided in IAS 7 has been amended to clarify that only expenditure that results in a recognised asset in the balance sheet can be classified as a cash flow from investing activities. This amendment is effective prospectively for the reporting period commencing 1 January 2010.

Consequently, to the extent that no corresponding asset(s) has been recognised, the translation effects of cash flows of foreign operations previously disclosed in the line item 'Other' as part of cash flows from investing activities in the group cash flow statement, has been reallocated to cash flows from operating activities as well as to the new line item 'Effects of exchange rates on cash and cash equivalents' included on the face of the group cash flow statement for the six months ended 30 June 2010.

#### Early adoption of new standards, amendments and interpretations

The accounting standards, amendments to issued accounting standards and interpretations, which are relevant to the group, but not yet effective at 30 June 2010, 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 R1.5 billion for the six months ended 30 June 2010 (2009: R1.5 billion).

R1.2 billion (2009: R1.2 billion) was incurred for the expansion of its operations, mainly on the development of Kolomela Mine, and R233 million (2009: R348 million) to maintain its operations, mainly for the acquisition of mining equipment for Sishen Mine. A total of R521 million (2009: R1.3 billion) was transferred from assets under construction to machinery, plant and equipment during the period as these assets were brought into production.

### 4. Share capital

The group acquired 295 478 (2009: 301 603) of its own shares through purchases on the JSE Limited during the period. The total amount paid to acquire the shares was R103 million (2009: R53 million). The shares are held as treasury shares and the purchase consideration has been deducted from equity.

237 451 (2009: 293 359) of these shares have been allocated as conditional share awards under the Kumba Bonus Share Plan. 43 322 (2009: 'nil' shares) of these shares were utilised to redeem conditional awards and share appreciation rights that have vested under the Long Term Incentive Plan and Share Appreciation Rights Scheme.

On 19 February 2010 Kumba issued 1 130 300 shares (2009: 'nil' shares) to the Management Share Option Scheme. Options exercised under the Management Share Option Scheme during the period ended 30 June 2010 resulted in 1 137 680 shares being issued (2009: 1 333 740 shares) with exercise proceeds of R56 million (2009: R65 million).

### 5. Interest-bearing borrowings

	Reviewed 6 months 30 June 2010	Restated 6 months 30 June 2009	Restated 12 months 31 December 2009
Rm			
<b>Kumba's net debt position at balance sheet dates was as follows:</b>			
Long-term interest-bearing borrowings	3 182	2 678	3 859
Short-term interest-bearing borrowings	–	2 862	55
<b>Total</b>	<b>3 182</b>	<b>5 540</b>	<b>3 914</b>
Cash and cash equivalents	(2 264)	(5 157)	(891)
<b>Net debt</b>	<b>918</b>	<b>383</b>	<b>3 023</b>
<b>Total equity</b>	<b>14 193</b>	<b>7 387</b>	<b>8 956</b>
<b>Interest cover (times)</b>	<b>53</b>	<b>51</b>	<b>43</b>
<b>Movements in interest-bearing borrowings are analysed as follows:</b>			
Opening balance as at 1 January	3 914	3 858	3 858
Debt raised	1 712	1 700	2 881
Repayment of borrowings	(2 444)	(18)	(2 825)
<b>Closing balance</b>	<b>3 182</b>	<b>5 540</b>	<b>3 914</b>

At 30 June 2010 R3.2 billion of the total R8.6 billion term debt facilities have been drawn down to finance Kumba's expansion.

As a result of the strong cash flow generation of the group due to higher prices and sales volumes, Kumba was able to repay R700 million drawn down against its R5.4 billion term debt facility outstanding at 31 December 2009 during the current period. Kumba was not in breach of any of its covenants during the period. The group had undrawn short- and long-term borrowing facilities at 30 June 2010 of R6.3 billion.

**6. Significant items included in operating profit**

Rm	Reviewed 6 months 30 June 2010	Reviewed 6 months 30 June 2009	Audited 12 months 31 December 2009
<b>Operating expenses is made up as follows:</b>			
Production costs	3 109	2 581	5 601
Movement in inventories	(27)	(111)	(600)
Finished products	85	(117)	(440)
Work-in-progress	(112)	6	(160)
<b>Cost of goods sold</b>	<b>3 082</b>	<b>2 470</b>	<b>5 001</b>
Mining royalty	546	–	–
Selling and distribution costs	1 604	1 468	2 838
Cost of services rendered – shipping	1 392	1 234	2 697
Sublease rent received	(5)	(6)	(8)
<b>Operating expenditure</b>	<b>6 619</b>	<b>5 166</b>	<b>10 528</b>
<b>Operating profit has been derived after taking into account the following items:</b>			
Employee expenses	996	786	1 672
Share-based payment expenses	106	68	142
Depreciation of property, plant and equipment	369	205	530
Net loss/(profit) on disposal and scrapping of property, plant and equipment	2	(22)	(35)
Net loss on disposal of investment	2	–	–
Finance gains	(297)	(97)	(329)
Gains on derivative financial instruments	(161)	(491)	(736)
Foreign currency (gains)/losses	(136)	394	407
Operating expenses capitalised	(226)	(32)	(181)

**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 2010 is 24.2% (2009: 27.5%).

## 8. Segmental reporting

The Kumba executive committee considers the business principally according to the nature of the products and services provided, with the identified segments each representing a strategic business unit.

The total reported segment revenue comprises revenue from external customers as the group does not have any inter-segment revenue and is measured in a manner consistent with that disclosed in the income statement.

The performance of the operating segments are assessed based on a measure of earnings before interest and tax ('EBIT'), which is consistent with 'Operating profit' in the financial statements. Finance income and finance costs are not allocated to segments, as this type of activity is managed on a central group basis.

Total segment assets comprise finished goods inventory only, which is allocated based on the operations of the segment and the physical location of the asset.

'Other segments' comprise corporate, administration and other expenditure not allocated to the reported segments.

Rm	Sishen Mine	Thabazimbi Mine	Shipping operations	Total
<b>Period ended 30 June 2010</b>				
Revenue (from external customers)	15 927	260	1 639	17 826
EBIT	11 218	–	247	11 465
Total segment assets	616	265	–	881
<b>Period ended 30 June 2009</b>				
Revenue (from external customers)	10 175	267	1 545	11 987
EBIT	6 718	6	305	7 029
Total segment assets	477	132	–	609
<b>Year ended 31 December 2009</b>				
Revenue (from external customers)	19 473	543	3 392	23 408
EBIT	12 677	44	675	13 396
Total segment assets	724	240	–	964

Rm	Reviewed 6 months 30 June 2010	Reviewed 6 months 30 June 2009	Audited 12 months 31 December 2009
<b>Reconciliation of EBIT to total profit before taxation</b>			
EBIT for reportable segments	11 465	7 029	13 396
Other segments	(258)	(208)	(516)
<b>Operating profit</b>	<b>11 207</b>	<b>6 821</b>	<b>12 880</b>
Net finance costs	(66)	(73)	(127)
<b>Profit before taxation</b>	<b>11 141</b>	<b>6 748</b>	<b>12 753</b>
<b>Revenue from external customers analysed by goods and services</b>			
Sale of products *	16 187	10 442	20 016
Shipping services	1 639	1 545	3 392
<b>Total revenue</b>	<b>17 826</b>	<b>11 987</b>	<b>23 408</b>

\* Derived from mining, extraction, production and selling of iron ore.



**Geographical analysis**

Kumba is domiciled in South Africa. The result of its revenue from external customers disclosed on a geographical basis, is set out below:

Rm	Reviewed 6 months 30 June 2010	Reviewed 6 months 30 June 2009	Audited 12 months 31 December 2009
<b>Total revenue from external customers</b>			
South Africa	798	622	1 359
Export	17 028	11 365	22 049
Europe	2 963	520	2 151
China	11 974	9 115	16 770
Rest of Asia	2 091	1 730	3 128
	<b>17 826</b>	<b>11 987</b>	<b>23 408</b>

**9. Related party transactions**

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

**10. Contingent liabilities**

During January 2010 SIOC 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 Sishen Mine.

The Taxation Laws Amendment Bill, released by National Treasury on 10 May 2010 for comment, propose changes to the Mineral and Petroleum Resource Royalties Act No. 28 of 2008. If the proposed amendments are enacted as they are currently drafted, the mineral royalty payable by Kumba for the six months ended 30 June 2010 could increase.

There have been no other significant changes in the contingent liabilities disclosed at 31 December 2009.

**11. Legal proceedings**
**Sishen Supply Agreement arbitration**

SIOC notified ArcelorMittal on 5 February 2010, that it was no longer entitled to receive 6.25Mtpa of iron ore contract mined by SIOC at cost plus 3% from Sishen Mine, as a result of the fact that ArcelorMittal had failed to convert its old order mining rights. This contract mining agreement, concluded in 2001, was premised on ArcelorMittal owning an undivided 21.4% interest in the mineral rights of Sishen Mine and as a result of ArcelorMittal's failure to convert its old order mining right, accordingly the contract mining agreement became inoperative in its entirety as of 1 May 2009.

As a result, a dispute arose between SIOC and ArcelorMittal as to whether the contract mining agreement became inoperative, which SIOC has referred to arbitration. SIOC served its statement of claim on 19 April 2010. SIOC has continued to supply ArcelorMittal with iron ore from Sishen Mine and has invoiced ArcelorMittal for the delivery of 1.45Mt of iron ore since March 2010 at commercial prices. Kumba has accounted for revenue at cost plus 3% in preparing the financial results for the period ended 30 June 2010 with the difference reflected as a contingent asset.

SIOC are engaged with ArcelorMittal in extensive negotiations to agree on an interim pricing arrangement pending the outcome of the arbitration. In the absence of ArcelorMittal agreeing on an interim pricing arrangement, SIOC will only load trains destined for ArcelorMittal effective 1 August 2010 on condition that, at least 48 hours before the intended loading, payment for that consignment and the accumulated amounts due for iron ore delivered is paid in full.

#### **21.4% undivided share of the Sishen Mine mineral rights**

After ArcelorMittal failed to convert its old order rights, SIOC applied for the residual 21.4% mining right previously held by ArcelorMittal and its application was accepted by the DMR on 4 May 2009. A competing application for a prospecting right over the same area was also accepted by the DMR. SIOC objected to this acceptance. Notwithstanding this objection, a prospecting right over the 21.4% interest was granted by the DMR to Imperial Crown Trading 289 (Pty) Limited ('ICT'). SIOC has lodged an appeal against the grant of the prospecting right by the DMR. This appeal process remains ongoing.

In addition, SIOC initiated a review application in the North Gauteng High Court on 21 May 2010 in relation to the decision of the DMR to grant a prospecting right to ICT.

#### **Lithos Corporation (Pty) Limited ('Lithos')**

Lithos is claiming US\$421 million from Kumba for damages in relation to the Falémé project in Senegal. 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. The trial date has been postponed indefinitely. No liability has been recognised for this litigation.

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

The group initiated arbitration proceedings against Miferso and the Republic of Senegal under the Rules of Arbitration of the International Chamber of Commerce. The arbitration remains confidential in nature.

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

The directors are not aware of any other 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 and King III reports on corporate governance. The Board is currently in the process of implementing the recommendations of the King III report. The Board has satisfied itself that Kumba has complied throughout the period under review in all material aspects with these codes.

### **14. Independent review opinion**

The group's auditors, Deloitte & Touche, has issued their unmodified review opinion on the condensed consolidated interim financial report for the six months ended 30 June 2010. Their review was conducted in accordance with International Standards on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity.' A copy of their unmodified review report is available for inspection at the company's registered office.

*On behalf of the Board*

PL Zim  
Chairman

Cl Griffith  
Chief Executive Officer

21 July 2010  
Pretoria

# Notice of interim cash dividend

At its Board meeting on 21 July 2010 the directors declared an interim cash dividend of R13.50 per share on the ordinary shares from profits accrued during the year ending 31 December 2010. The salient dates are as follows:

- Last day for trading to qualify and participate in the interim dividend (and change of address or dividend instructions) Friday, 13 August 2010
- Trading ex dividend commences Monday, 16 August 2010
- Record date Friday, 20 August 2010
- Dividend payment date Monday, 23 August 2010

Share certificates may not be dematerialised or rematerialised between Monday, 16 August 2010 and Friday, 20 August 2010, both days inclusive.

*By order of the Board*

**VF Malie**  
Company secretary

21 July 2010  
Pretoria

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**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, G Gomwe  
*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)



[www.kumba.co.za](http://www.kumba.co.za)