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CHIEF EXECUTIVE'S REVIEW

KUMBA'S FIRST YEAR AS AN INDEPENDENT ENTITY LISTED ON THE JSE SECURITIES EXCHANGE SA HAS BEEN A NOTABLE SUCCESS



OVERVIEW

The past year – our first as an independent entity listed on the JSE Securities Exchange SA – has been a notable success.

The immediate objective of establishing Kumba as a strong, independent and diversified mining company has been achieved. Our businesses in iron ore, coal, heavy minerals, base metals and industrial minerals operated profitably and contributed to the Group's strong cash flow in a challenging environment for the mining industry, and business generally, around the world.

The benefits of the re-engineering programme – completed prior to unbundling – have been carried through and, coupled with an embedded culture of

continuous improvement and operational excellence, have underpinned this performance and established a solid foundation for further profitable growth.

To grow our business successfully, strong and sustainable cash flows are essential. Our strategy going forward is to continue to focus on those commodities and investments that offer above average growth and returns, while spreading the risks associated with the volatility that characterises the supply and demand for minerals and metals in the world's major markets.

Kumba possesses a powerful commodity portfolio in terms of our asset base, current operations and growth opportunities. In iron ore, our Sishen mine, one of the world's largest open-pit operations, exploits the largest known reserve of lump iron ore and enables us to rank fourth among global seaborne traded iron ore. Further reserves of similar quality await development at Sishen South. Our coal business includes two of the lowest cost coal mines in southern Africa, enhanced by long-term supply contracts with Eskom and Iscor Limited. In zinc, our operations centre around the lowest-cost refinery in the world, which has enabled this business to remain profitable over the last year in the face of one of the worst markets for zinc in more than a decade. During the year, we commissioned our new mineral sands mine and extraction plant near Empangeni in KwaZulu-Natal. When the associated smelter complex, currently under construction, is completed, this operation, together with our Australian investments, will establish Kumba as the world's third largest producer of titanium dioxide feedstock. The assets comprising our industrial minerals portfolio are of strategic significance in regard to the beneficiation and marketing of iron ore.



OUR EMBEDDED CULTURE
OF CONTINUOUS IMPROVEMENT AND OPERATIONAL
EXCELLENCE HAS UNDERPINNED OUR PERFORMANCE



CHIEF EXECUTIVE'S REVIEW

(CONTINUED)

Kumba's operating and financial performance this past year – in markets characterised by oversupply and aggressive pricing – has been impressive. Each of our strategic business units in iron ore, coal, base metals, heavy minerals and industrial minerals contributed to the Group's strong cash flow and profitability.

Black economic empowerment is an important element in our growth and development strategy and during the year we concluded an anchor empowerment agreement with the Tiso Kgalagadi Consortium ("Tiso"). We are pleased to report that the Industrial Development Corporation ("IDC") has maintained its issued holding. Anglo American emerged as the largest single shareholder at the year-end and indicated its support for our strategy.

FINANCIAL RESULTS

Net operating profit for the year more than doubled from R584 million, to R1 683 million and headline earnings per share increased by 97% to a record level of 385,3 cents.

It is pleasing to report that each of Kumba's strategic business units, namely iron ore, coal, heavy minerals, base metals and industrial minerals contributed positively to the growth in profits and earnings.

CASH FLOW AND DEBT

The cash flow generated by the strong performances of all the businesses was supplemented during the year by Ticor Limited's second installment of R109 million for its interest in the KwaZulu-Natal heavy minerals project and the issue of 14,1 million new shares to Tiso, at a subscription of R393 million.

After capital expenditure, the net effect was the reduction of Kumba's debt of R2 541 million arising from the unbundling, to R1 143 million by the year-end.

OPERATIONAL PERFORMANCE

Iron ore production, sales, operating income and cash flow, strongly underpinned by superior product quality and a global customer base rose to record levels.

Notwithstanding the fact that 25% of the production was sold to Iscor Limited in terms of a long-term agreement

which became effective from the start of the year at cost plus a management fee of 3%, operating profit increased by 75% over the previous year to R1 221 million, representing 73% of the Group's total net operating profit for the year.

The only significant constraint on the Sishen iron ore mine at this time is the current carrying capacity of the rail system to Saldanha Bay and loading facilities at the port. Dedicated teamwork between Kumba, Orex and South African Port Operations ("Port Operations") resulted in record exports for the year. I am pleased that considerable progress has been made to increase the capacity of the line and the port in a systematic manner both in the short term and over the next ten years.

Coal achieved a remarkable performance and made a substantial contribution to the bottom line. Revenue increased by 20% to R1 489 million, while operating profit rose by 155% to R255 million, reflecting the business unit's ability to increase production while driving down costs. Eskom and Iscor Limited are the principal customers and accounted for the increase in production and stability of the revenue stream. This solid foundation will be supplemented substantially by export earnings on completion of the Phase V expansion of the Richards Bay Coal Terminal, scheduled for 2004.

One of the most notable, albeit still small, contributions to operating profit for the year came from the successful start up of the **heavy minerals** project in KwaZulu-Natal. Officially opened in September 2001, the project has consistently run ahead of schedule and within budget. As the mining operation is ramped up and the first of the smelter's two furnaces is commissioned during the coming year, revenue and profit are expected to increase substantially to the point of full production in 2005.



AN IMPORTANT ANCHOR EMPOWERMENT AGREEMENT WAS CONCLUDED WITH THE TISO K GALAGADI CONSORTIUM

Base metals turned in revenue of R941 million and an operating profit of R102 million. The lowest zinc metal prices in more than a decade were offset to an extent by the depreciation of the Rand during the year. Key to the success of the business is the fact that the Zincor electrolytic refinery in Springs is one of the lowest cost operations of its type in the world.

BUSINESS DEVELOPMENT

● NORTHERN CAPE IRON ORE

Kumba's total mineral resource of some two billion tonnes of iron ore in the Northern Cape represents the company's most significant asset. About 75% of the reserve is located at the Sishen mine and the remainder about 70 km to the south near Postmasburg. A feasibility study, aimed at establishing a mining operation called Sishen South and integrating it with the operation at Sishen, will be completed at the end of 2002. Apart from the feasibility and optimisation study, negotiations with Spoornet culminated in the signing of a long-term rail tariff agreement, and co-operative commitments regarding increasing the capacity of the Orex line and iron ore export terminal at Saldanha. Negotiations with the owners of neighbouring iron ore assets to identify the potential for, and benefits of a consolidation of our respective interests in the region were also initiated and are progressing.

● HOPE DOWNS

The technical report of the feasibility study to exploit a 400 million tonne iron ore reserve in the Pilbara region of Western Australia was successfully completed just before the year-end. Attention has now turned to the assessment of funding options for the development of a mine and export logistics in conjunction with our

partners, Hancock Prospecting Proprietary Limited of Perth, Australia.

Subject to regulatory approvals, market support, a suitable funding plan and shareholder approval, the target date for commissioning the mine is early 2006, with full production anticipated some five years later.

● HEAVY MINERALS

The construction of the first of the two furnaces planned for the smelter at Empangeni, in KwaZulu-Natal, to process the ilmenite from our new mine at Hillendale was 80% complete and well within budget at the year-end. Commissioning, originally scheduled for March 2003, is now planned for December 2002. The construction of the second furnace is scheduled for completion early 2004.

Kumba owns 60% of the project, which is managed by Ticor South Africa. The balance is owned by the Australian listed titanium dioxide company Ticor Limited, which also has an option to acquire Kumba's holding on commissioning the second furnace. Kumba in turn increased its stake in Ticor Limited to 49,15% during the course of the year.

● COAL EXPORTS

The South Dunes Coal Terminal Consortium ("SDCT"), of which Kumba is a leading member, succeeded in concluding agreements with both Spoornet and the shareholders of the Richards Bay Coal Terminal ("RBCT") that would allow SDCT to export 6,5 million tonnes per annum of coal from an upgraded RBCT facility by 2004/5. Of this tonnage Kumba has an entitlement of two million tonnes per annum. Kumba has concurrently completed a feasibility study for the development of its

CHIEF EXECUTIVE'S REVIEW

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Kumba's strategic intent is to build a globally competitive mining company with a balanced portfolio of world-class resources, leading-edge mining and beneficiation technology and to achieve one of the lowest cost structures in the industry through an uncompromising commitment to operational excellence.

Kalbasfontein reserve of high-grade steam coal just north of Witbank. The inclusion of a black empowerment partner in the project, scheduled to deliver one million tonnes per annum of product for export via RBCT, is being actively pursued. Unfortunately, progress with this exciting development – and that of all SDCT related projects – has been unexpectedly delayed by a series of issues raised by the National Port Authority, a subsidiary of Transnet. Further delays could jeopardise the realisation of the many growth opportunities planned by the SDCT and other RBCT Phase V members.

BLACK ECONOMIC EMPOWERMENT (BEE)

During November 2001, Kumba and the Tiso concluded an anchor empowerment agreement in terms of which Tiso has secured an initial shareholding of 4,8% in Kumba. Tiso is an empowerment investment consortium representing a broad grouping of black business people with commercial and social interests closely aligned to Kumba's operations. At the operational level, Kumba is also engaging Tiso and other BEE companies with a view to identifying mutually beneficial opportunities. The discussion initiated with Eyesizwe Coal (Pty) Limited, aimed at exploring synergies to build and strengthen our respective coal interests, is an exciting example of this process.

SHAREHOLDING STRUCTURE

By the end of the financial year, Anglo American directly and indirectly with 20,1%, the Industrial Development Corporation with 13,97% and Tiso with 4,8%, emerged as the major shareholders in Kumba with a collective holding of 38,87%.

Local and foreign fund managers and other shareholders held the balance of 61,13%.

CORPORATE GOVERNANCE

At the start of the financial year and during the subsequent listing of Kumba on the JSE Securities Exchange SA, we tabled our intention to make corporate governance a distinguishing feature of Kumba's business.

In the statement to shareholders, our chairman has already commented on some of the notable achievements, particularly those relating to the functions and responsibilities of the Board.

Starting with the advantage of a clean sheet, Kumba has adopted the best international practices and guidelines currently available. The report on corporate governance, included as a separate section in this annual report, will also show that our principles and practices are aligned with those recommended in the King Report on Corporate Practices and Conduct, published in 1994. The recommendations of the second King Report on Corporate Governance in South Africa ("King II"), published in 2002, are being reviewed to ensure that our governance structures are fully in line with this latest report as well. Initial indications are that only minor changes will be required.

SUSTAINABLE DEVELOPMENT

In line with the recommendations of King II, safety, health and environment (SHE), human resources, social responsibility, and stakeholder relations are key to Kumba's commitment to sustainable development.

These functions and responsibilities lie at the very heart of our operations and managing them effectively is demanding increasing levels of expertise, experience and technology. During the year several senior

UNTIL SUCH TIME AS THE MAJOR ECONOMIES OF THE WORLD SHOW MORE SYNCHRONISED GROWTH, COMMODITY PRICES WILL REMAIN UNDER PRESSURE

appointments were made to meet this need and to give our programmes additional support and impetus.

In the chairman's statement to shareholders, the need for renewed and even more concerted efforts to improve the **safety** of our working environment for all our employees and contractors has been strongly underlined. Although the indices measuring our safety performance improved during the year, and are well within industry benchmarks, the eight work-related fatalities were recorded with deep regret and concern.

All of our operations are committed to achieving the highest levels of safety possible in their working environments and to ensuring that safety is an agenda priority at all management meetings.

In a relatively short space of time, HIV/Aids has become one of the most significant threats to the sustainable development of southern Africa. Since 1997 Kumba has been engaged in awareness and education programmes among employees and their families aimed at preventing the spread of the disease and assisting employees living with the disease, by means of comprehensive wellness programmes.

With the full co-operation and support of the labour unions, pension and medical aid funds these programmes are being broadened to include a "know your status" campaign throughout the company.

In the coming year, the extension of these interventions to include antiretroviral treatment for HIV-positive employees will be thoroughly evaluated in conjunction

with the health authorities, labour unions and medical experts. Kumba is firmly committed to proceed with an antiretroviral programme if it is shown to be in the best overall interest of the employees and the company.

In addition, Kumba is participating in the comprehensive HIV/Aids study being conducted by the Chamber of Mines.

Environmental and rehabilitation management plans complying with the regulatory requirements of the Department of Minerals and Energy Affairs are in place at all Kumba's mines. The regulatory requirements are the base line that each of the mines continuously endeavours to exceed.

This past year, particular attention was paid to the rehabilitation of the Hlobane and Durnacol collieries in KwaZulu-Natal, closed during 2000 and 2001 respectively.

Employment equity is viewed as an important element of sustainable development and we are pleased to report that we have made good progress.

In July 2001, Kumba registered as a designated employer in terms of the employment equity regulations. Every business has defined its equity goals and is working actively towards achieving the targets set.

Training and development is one of the key components of employment equity and our human resources development programme. During the past financial year more than 65% of the company's employees attended one or more training programmes. This involved an expenditure of R62,6 million, equal to 6,1% of the

CHIEF EXECUTIVE'S REVIEW

(CONTINUED)

In Kumba, people are the heart and soul of our business.

They are among the best qualified and experienced in the mining industry. They have been through a rigorous re-engineering programme and corporate transformation and in the process developed a deep-seated culture of teamwork and caring for each other. They are highly motivated, and determined to excel at everything they do.

company's payroll – a ratio considered to be one of the highest in the mining industry in South Africa.

With industry-related **remuneration and benefits**, Kumba attracts and rewards its employees fairly and competitively. At the start of the current financial year an incentive scheme was introduced to ensure that all employees throughout the company could share in the company's financial achievements.

We believe that an incentive policy consisting of two elements – a bonus scheme based on the achievement of mutually agreed targets and a gain share scheme, when targets are exceeded – contributed substantially to the achievement of this year's results. Production and profit targets have been exceeded and all employees throughout the company will participate in the gain share incentive.

The primary focus of Kumba's **social responsibility and transformation** programme is in the areas of education, training and skills development.

Increasing attention is being given to poverty alleviation and the economic sustainability of the communities in which we operate.

During the course of the year the Minister of Minerals and Energy appealed to Kumba to play a leading role in facilitating programmes to alleviate poverty in the Northern Cape. This challenge has been accepted and is being integrated into the comprehensive programmes already in place at Sishen.

Corporate ethics, business principles and values are viewed and managed as an integral part of our business. Excellence in these areas is the driving force and

common denominator. Building on the success of the continuous improvement programme, a task team was appointed during the second half of the year to incorporate these concepts into a more comprehensive programme to be known as the Kumba Way. Focusing on building a culture based on "living the values" and on operational excellence, it will be rolled out in the coming year.

LOOKING AHEAD

Until such time as the major economies of the world show more synchronised growth – now not expected before the first quarter of 2003 – the commodity prices that govern our financial performance will remain under pressure in the year ahead.

The rationalisation of the global steel industry is showing positive results in terms of rising steel prices. This, together with the continued increase in demand for iron ore from China, should increase the potential for a more favourable result from iron ore price negotiations during the last quarter of the new financial year, in contrast to the recent decline of as much as 5% for certain categories.

International spot prices for thermal coal declined sharply towards the end of the fourth quarter of the 2002 financial year and, although they should recover during the European winter, are not expected to rise above the average level achieved during 2002. However, the coking coal market, on which an important portion of Kumba's coal business is based, remains buoyant. In the domestic market the demand for coal from our major customers Eskom and Iscor Limited is expected to be firm with moderate price increases expected from January 1, 2003.



While the demand and prices for rutile and zircon are expected to remain relatively stable in the coming year, the prices for ilmenite and titanium dioxide are not expected to move off their current levels until the global economy begins a sustained recovery.

The world supply of zinc metal is expected to continue to exceed demand during the next financial year and act as a restraint on the price of the metal. Due to a tight concentrate market worldwide, zinc treatment charges are also expected to remain under pressure.

At the operational level the excellent performance of all the businesses should continue. Iron ore and coal production is expected to increase to meet the contractual commitments and the firm demand coming from our customer base in both the international and domestic markets. Heavy mineral revenue will increase in line with the ramping up of production and the commissioning of the first furnace at the smelter in KwaZulu-Natal. Base metal markets are expected to remain depressed with a modest recovery in prices expected towards the latter part of the coming financial year. However, the robust nature of our ongoing business is expected to keep it cash positive and profitable.

Capital expenditure in the coming financial year, largely due to the ongoing investment in the heavy minerals project in KwaZulu-Natal, will be of the order of R1 791 million. This represents a major step in our investment programme for future growth.

While the Mineral Bill is certain to present the industry with new challenges and opportunities, it is not anticipated that the profile of Kumba's existing and new

business developments will change materially. We support the underlying principles of the Mineral Bill and will participate constructively in its application – both in our own right, and in association with the Chamber of Mines.

In conclusion, Kumba's first year as an independent entity has been an outstanding success. Our financial results exceeded our most optimistic forecasts and our pipeline of new projects and investment opportunities has firmed up significantly.

It was a team effort second to none and I wish to pay tribute to each employee of Kumba for his or her unique contribution.

I also wish to pay tribute to the Board for its guidance and wise counsel and to thank our chairman, Hans Smith and my fellow executive directors, Mike Kilbride, Richard Wadley, Dirk van Staden and Charles Meintjes for their uncompromising commitment and support.

While our success will again be contingent on external factors such as the Rand/US dollar exchange rate and commodity prices, I am confident that excellent performance from all our operations will continue to deliver outstanding results.



Con Fauconnier
Chief executive