

# FINANCIAL REVIEW

- REVENUE UP 33%
- NET OPERATING PROFIT UP 188%
- HEADLINE EARNINGS UP 115%
- DEBT REDUCED FROM R2,5 BILLION TO R1,1 BILLION

## GROUP OPERATING PERFORMANCE

Strongly improved operating results marked our first year as a listed mining company on the JSE Securities Exchange SA after unbundling from Iscor Limited. Net operating profit was up substantially compared with the previous year on the back of good production performance, increased iron ore and coal sales, a continuing focus on cost containment and the weakening of the Rand against the US dollar.

Rand million	2002	2001 <sup>1</sup>	(%)
Net operating profit	<b>1 683</b>	584	(+188)
Non-recurring charge for the scrapping of the Ifcon furnace	–	209	
	<b>1 683</b>	793	(+112)

1. All comparisons to the results of prior years are made relative to the pro forma information as contained in our pre-listing statement of October 29, 2001.

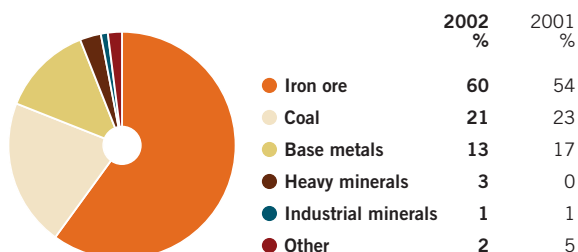
Net operating profit reflects a compound growth rate of 30% over the past five years.

The performance of the Group is reflected in a robust operating margin of 23% compared with the previous year's 15%, despite the lowest zinc prices in more than 15 years, and after taking into account the effect of the agreement with Iscor Limited for the annual supply of 6,25 million tonnes of iron ore from Sishen mine at the cost of production, including depreciation, plus a

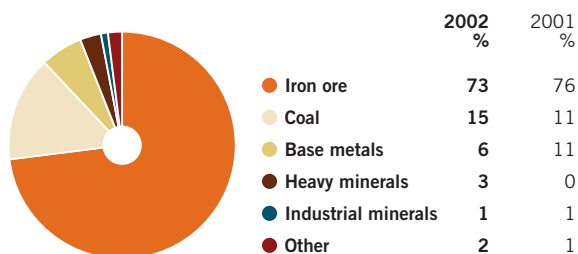
management fee of 3%. Earnings before interest, tax, depreciation and amortisation ('Ebitda') increased strongly by 131% to R2 137 million for the year under review.

While iron ore remains the dominant contributor to both revenue and net operating profit, heavy minerals is expected to increase its share substantially as the first and second furnaces of the smelter come into production in 2003 and 2004. The Review of Business Operations provides a comprehensive analysis of the operating results of strategic business units.

## REVENUE CONTRIBUTION



## NET OPERATING PROFIT CONTRIBUTION





WE DO IT BETTER EVERY TIME



# FINANCIAL REVIEW

## (CONTINUED)



### NET FINANCE COSTS

Net finance costs consist of interest expense, net of interest earned.

The average monthly effective cost of borrowings for the year was 10,5% inclusive of the heavy minerals project finance loans. Net finance costs decreased by R29 million to R242 million as strong operating results reduced our unbundling debt level. Net finance costs were covered nine times by Ebitda.

### INVESTMENT AND EQUITY INCOME

Our share of attributable income from investments, before tax, has decreased significantly.

Rand million	2002	2001
Ticor Limited (Ticor)	72	118
AST Group Limited (AST)	(8)	19
Trans Orient Ore Supplies	17	–
Other	2	–
	<b>83</b>	137

Of the two listed investments, AST reported an attributable loss, while Ticor reported a significant reduction in profit due to difficult trading conditions. We acquired the investment in AST, which resulted from the outsourcing of Iscor Limited's information technology function in 1998, as part of the unbundling allocation of debt. AST is regarded as non-core for Kumba's business and our position as a major shareholder in AST will be reviewed on an ongoing basis.

Our investment of 49,15% in Ticor, an Australian heavy minerals and pigment producer, forms part of our heavy minerals strategy as explained more fully in the Review of Business Operations.

### TAXATION

The tax charge for the year increased by R358 million to R465 million in line with the improvement in operating profits.

The effective tax rate was 32% mainly as a result of adjustments to the deferred tax asset raised the previous year on the provision for the environmental closure obligation to take account of the consolidation of the environmental rehabilitation trust fund, and to non-temporary differences in the split of the offshore subsidiaries as a consequence of the unbundling.

### EARNINGS

Headline earnings more than doubled to R1 098 million (385 cents per share) from the previous year's pro forma earnings of R511 million (195 cents per share), with returns on invested capital increasing sharply from 10% to 23% and returns on equity from 12% to 20%. The following items are excluded in arriving at headline earnings:

Rand million	2002	2001
Attributable earnings	976	388
Adjusted for:		
• exceptional items	–	(72)
• net deficit on disposal or scrapping of operating assets	4	203
• impairment charges	101	–
• goodwill amortisation	(26)	27
• our share of associates' goodwill	40	40
• our share of associates' exceptionals	12	(14)
• tax effect on above items	(9)	(61)
Headline earnings	<b>1 098</b>	511

## THE BOARD DECLARED A MAIDEN DIVIDEND OF 85 CENTS PER SHARE

### DIVIDENDS

Although not envisaged at the time of listing, the strong improvement in earnings and reduction of debt has allowed the Board to declare a maiden dividend of 85 cents per share, covered 4,3 times by headline earnings.

We aim to declare regular dividends annually in August, payable in September, with a long-term average dividend cover of three times, but which may vary each year in line with changes in our debt level to realise value-adding growth projects and opportunities.

### CASH FLOW

The good operating cash inflow, after capital expenditure, together with receipt of the Tiso share subscription proceeds of R393 million and Ticor's second installment of R109 million for its 40% interest in the heavy minerals project, resulted in a strong positive cash inflow and corresponding debt reduction for the year.

Rand million	<b>2002</b>
Cash flow from operating activities	<b>2 175</b>
Cash used in investing activities	
• Capital expenditure – heavy minerals project	<b>(631)</b>
• Capital expenditure – other	<b>(454)</b>
• Proceeds on disposal of property, plant and equipment	<b>25</b>
• Cash flow – issue of shares	<b>393</b>
Unbundling expenditure	<b>(44)</b>
Other	<b>(66)</b>
Net cash inflow	<b>1 398</b>

A further investment of R91 million was made in Ticor, increasing our shareholding to 49,15%.

### FINANCIAL STRUCTURE

At year-end, net borrowings of R1 143 million were 0,5 times Ebitda and our net debt to equity ratio 24% compared with the target level of around 30%. This was a sterling performance when compared with the pro forma net debt at the time of unbundling of R2,5 billion and a debt to equity ratio of 78%.

The maturity profile of our debt, which apart from the heavy minerals limited recourse funding package, consists of the loan facilities assumed during the unbundling from Iscor Limited, is as follows:

Rand million	Drawn	Available	Redemption profile
Long term			
• Corporate	1 453	–	2003 930
• Heavy minerals	360	840	2004 221
	1 813	840	2005 123
			2006 87
			Later 452
			1 813
Short term	9	1 883	
Total	1 822	2 723	
Cash balances	(679)		
Net debt	1 143		

Our ability to generate stable cash flow will enable Kumba to access the debt markets for refinancing loan maturities, to the extent necessary, with a well spread redemption schedule.

# FINANCIAL REVIEW

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## COMPOUND ANNUAL GROWTH RATE IN NET OPERATING PROFIT OF 30% FOR THE PAST FIVE YEARS

### CAPITAL EXPENDITURE

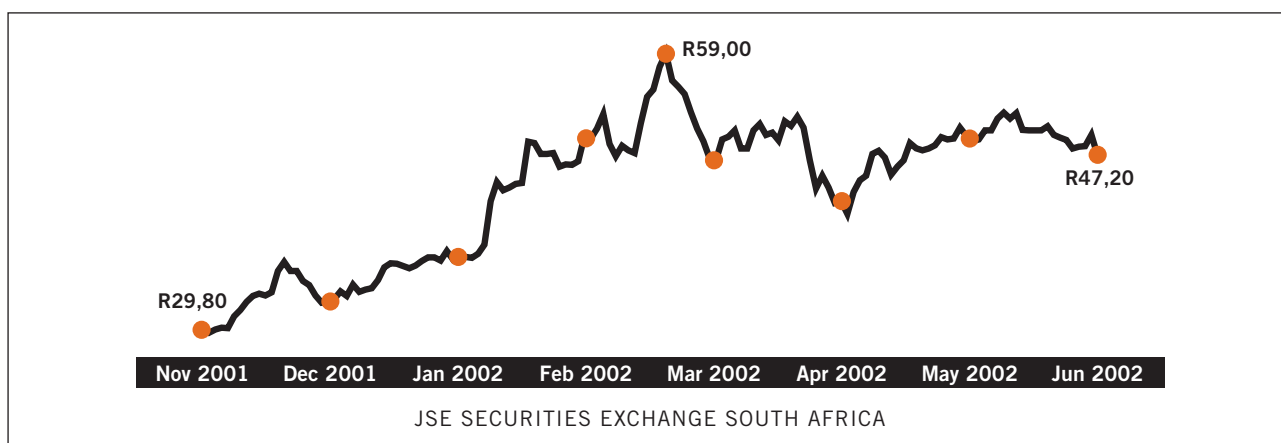
The following table shows a comparison of actual capital expenditure for the past year, together with an estimate for next year:

	Actual	Forecast
Rand million	<b>2002</b>	2003
Heavy minerals project	<b>628</b>	1 156
Sustaining capital	<b>283</b>	420
Expansions	<b>150</b>	172
Environmental	<b>24</b>	43
Total	<b>1 085</b>	1 791

Capital expenditure in the heavy minerals project increases as a result of the construction of the smelter. The Review of Business Operations contains a more comprehensive analysis of capital expenditure.

### SHARE PRICE PERFORMANCE

Our share price improved from the opening listing price of R29,80 on November 26, 2001 to a peak of R59,00 on March 18, 2002, before falling off to close the financial year at R47,20. Trading volumes were high during the year with a turnover equivalent to 59% of the issued capital making Kumba one of the most liquid stocks on the JSE Securities Exchange SA.





## RISK MANAGEMENT

Risk management, which includes a system of internal controls, is embedded in our business processes.

- The business risks relating to the operational activities of our business units and corporate functions are assessed on a continuous basis and specific mitigating and control measures are developed. Potential major risks which have been identified in terms of their overall impact on our business are as follows:
  - Plant breakdown at the port of Saldanha Bay affecting exports of iron ore, which business unit accounts for 73% of our net operating profit. The constructive relationship we have with the port's operating management in addressing technical problems in a co-ordinated manner, has proved to be an important risk mitigating factor in this regard. The port expansion projects planned for completion by November 2004, will provide significant added security to the export channel.
  - The completion of the smelter phase of our heavy minerals project and the ramping-up of the furnaces are significant shorter-term risks that are receiving close attention. The specific risk areas have been identified and evaluated, and the best available resources have been committed to ensure that the plans to address these risks, are achieved.
  - The legislative environment aimed at the transformation of the mining industry. We support the objectives of the Mineral Bill and are committed to sustainable empowerment and social

responsibility initiatives in all facets of our business. Through our representation on the Chamber of Mines, we are participating in the current discussions to develop a mining charter which will meet the interests of the mining industry while accommodating the aspirations of all South Africans.

- An increasing HIV/Aids prevalence among our workforce affecting productivity. We have developed a comprehensive strategy and action plans to evaluate and mitigate this risk and to support affected employees as discussed in the report on Human Resources.
- Pure risks are identified and risk awareness is promoted by risk committees which operate at all our business units. We insure against losses arising from catastrophic events which include fire, flood, explosion, earthquake and machinery breakdown and business interruption from these events.

We accept internal insurance deductibles that vary in line with the nature of the risk, and insure a further layer with captive insurance companies through whom we thereafter purchase cover from local and international third-party insurance companies. An aggregate limit also exists.

We renew our insurance annually on 1 July. Placement of cover has become more difficult with significantly higher premiums due to a substantial hardening of the insurance market, particularly in relation to mining assets.

# FINANCIAL REVIEW

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- Credit risk in relation to:
  - trading activities is low due to a high proportion of term supply arrangements with long-standing clients, mitigated further where dictated by customer creditworthiness or country risk assessment, through a combination of confirmed letters of credit and credit risk insurance. Our bad debt write-offs are negligible;
  - counterparty exposures arising from money market investments, foreign currency, interest rate and zinc price hedging operations are controlled by dealing only with financial institutions of high credit standing. The credit exposure to any one counterparty is managed by setting transaction limits.
- Exchange rate exposure on loans and capital expenditure is fully covered. Hedging of expected net foreign currency receipts from exports less trading imports is undertaken on a limited and shorter-term forward basis. Variations to this policy are subject to Board approval.

The average exchange rate realised on net currency receipts for the year was R10,18 to the US dollar. In line with the relative stabilisation of the Rand to stronger levels since April of this year, we extended our cover on expected net foreign currency receipts. At year-end we had a forward sales book of US\$57 million at an average rate of R10,50 to a US dollar spread out until October 2002.

- Interest rate risks are addressed by maintaining a mix of fixed and floating rate loan facilities, with 30% of

term loans financed on a fixed basis at year-end. We actively manage the ratio of fixed to floating rates in the light of interest rate expectations and the risk profile of our projects.

- Liquidity risk is managed by maintaining a high proportion of net debt in longer-term facilities and substantial standby bank facilities as more fully reported on in the discussion of our financial structure.
- Price hedging is undertaken on a limited scale in respect of zinc metal for which an international hedging market is accessible. Hedging of the US dollar zinc price and corresponding exchange rate exposure during the year resulted in an average price of R9 151 per tonne being realised compared with an average market price of R7 906 per tonne. Prices for our other commodities are established on commercial terms with customers and suppliers, other than the 6,25 million tonnes per annum of iron ore supplied by Sishen mine at its cost of production, to Iscor Limited's steel mills. The Thabazimbi iron ore and Tshikondeni coking coal mines are contracted to sell their full production to Iscor Limited. The total costs of running the captive mines and capital expenditure incurred, are recovered from Iscor Limited. A management fee of 3% is added to these costs.
- Technology risks are addressed as follows: Annual audits are conducted to review the security of SAP R3 as our main business system and standard operating procedures exist. Disaster recovery programmes are in place for this and all other major systems. Process technology risk, in general, is low. Internally developed technology is protected by patents, where appropriate.



## POST-RETIREMENT BENEFIT LIABILITIES

The three accredited medical aid funds are structured so as to exclude any employer liability for post-retirement medical benefits in respect of either existing or past employees.

Our retirement benefit funds comprise a number of defined contribution funds and a closed defined benefit fund. The sound financial position and small numbers of members remaining in the closed fund eliminate the possibility of any significant employer liability arising.