

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the 12-months ended 31 December 2005

## 1. ACCOUNTING POLICIES

### Principal accounting policies

The principal accounting policies of the group and the disclosures made in the annual financial statements conform with South African Statements of Generally Accepted Accounting Practice and comply with International Financial Reporting Standards effective for the group's financial year.

The financial statements are prepared on the historical cost basis modified by the restatement of financial instruments and biological assets to fair value.

Where comparative financial information is reported, the accounting policies have been applied consistently for all periods. Changes to comparatives are set out in note 2.

### Basis of consolidation

The group annual financial statements present the consolidated financial position and changes therein, operating results and cash flow information of the company and its subsidiaries. Subsidiaries are those entities in which the group has an interest of more than one half of the voting rights or the power to exercise control so as to obtain benefits from their activities.

The results of subsidiaries are included for the duration of the period in which the group exercises control over the subsidiary. All intercompany transactions and resulting profits and losses between the group companies are eliminated on consolidation. Where necessary, accounting policies for subsidiaries are changed to ensure consistency with the policies adopted by the group. If it is not practical to change the policies, the appropriate adjustments are made on consolidation to ensure consistency within the group.

The company carries its investments in subsidiaries at cost less accumulated impairment losses.

The results of special purpose entities that, in substance, are controlled by the group, are consolidated.

### Goodwill

Goodwill is reflected at cost less accumulated impairment losses, if any. It represents the excess of the cost of a business combination over the fair value of the group's share of the identifiable net assets of that entity at the date of acquisition. Goodwill is assessed for impairment on an annual basis. This is a change in accounting policy. Goodwill was previously amortised using the straight line basis over its estimated useful life. This policy is applied prospectively.

The gain or loss on disposal of an entity includes the balance of goodwill relating to the entity.

The excess of the fair value of the net identifiable assets and contingent liabilities of the entity, acquired over the cost of acquisition, is recognised immediately in profit or loss. In line with the transitional provisions of IFRS 3 Business Combinations, the carrying amount of negative goodwill at the beginning of the financial year that arose from a business combination for which the agreement date was before 31 March 2004 was derecognised at the beginning of the period with a corresponding adjustment to the opening balance of retained earnings.

### Investments in associates and joint ventures

The company carries its investments in associates and joint ventures at cost less accumulated impairment losses.

An associate is an entity over which the group has the ability to exercise significant influence, but which it does not control.

A joint venture is an entity jointly controlled by the group and one or more other venturers in terms of a contractual arrangement requiring unanimous consent for strategic financial and operating decisions. It may involve a corporation, partnership or other entity in which the group has an interest.

Investments in associates are accounted for in the group financial statements using the equity method for the duration of the period in which the group has the ability to exercise significant influence. Equity accounted income represents the group's proportionate share of profits of these entities and the share of taxation thereon. The retained earnings of an associate, net of any dividends, are classified as distributable reserves. This is a change in accounting policy, these earnings were previously transferred to a non-distributable reserve. Prior periods have been restated to reflect this change.

Where the group's share of losses of an associate exceeds the carrying amount of the associate, the associate is carried at nil. Additional losses are only recognised to the extent that the group has incurred obligations in respect of the associate.

Investments in joint ventures are accounted for in the group financial statements using the proportionate consolidation method. This is a change in accounting policy as far as incorporated joint ventures are concerned. Investments in incorporated joint ventures were previously accounted for using the equity method while investments in unincorporated joint ventures were proportionately consolidated.

Where necessary, the results of associates and joint ventures are restated to ensure consistency with group policies. Unrealised profits and losses are eliminated.

The group's interest in associates and joint ventures is carried in the balance sheet at an amount that reflects its share of the net assets and the unimpaired portion of goodwill on acquisition. Goodwill on the acquisition of associates and joint ventures is treated in accordance with the group's accounting policy for goodwill.

#### Property, plant and equipment

Land and extensions under construction are stated at cost and are not depreciated. Buildings, including certain non-mining residential buildings and all other items of property, plant and equipment, are reflected at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged on a systematic basis over the estimated useful lives of the assets after taking into account the estimated residual value of the assets.

Useful life is either the period of time over which the asset is expected to be used or the number of production or similar units expected to be obtained from the use of the asset.

Moulds and refractory furnace relines are depreciated based on the usage thereof.

Items of property, plant and equipment are capitalised in components where components have a different useful life to the main item of property, plant and equipment to which the component can be logically assigned to.

The estimated useful lives of assets and their residual values, are re-assessed periodically with any changes in such accounting estimates being adjusted in the current financial year of re-assessment and applied prospectively.

The estimated useful lives of items of property, plant and equipment are:

2005	Iron ore	Coal	Heavy minerals
Buildings and infrastructure (including residential buildings)	5 – 25 years	5 – 25 years	4 – 40 years
Mineral properties	10 – 25 years	5 – 25 years	10 – 25 years
Fixed plant and equipment	4 – 25 years	5 – 25 years	2,5 – 25 years
Mobile equipment, built-in process computers, underground mining equipment and reconditionable spares	2 – 25 years	16 000 – 40 000 hours or 5 – 15 years	2,5 – 20 years
Loose tools and computer equipment	5 years	5 years	2,5 – 10 years
Development costs	5 – 6 years	8 – 20 years	4 – 10 years
Refractory relines			2 – 5 years
Site preparation, mining development and exploration	5 – 25 years	9 – 25 years	3 – 25 years
	Base metals	Industrial minerals	Other
Buildings and infrastructure (including residential buildings)	8 years – indefinite	10 – 25 years	3 – 25 years
Fixed plant and equipment	8 – 25 years	5 – 25 years	5 – 10 years
Mobile equipment, built-in process computers, underground mining equipment and reconditionable spares	2 – 15 years	5 – 15 years	5 years
Loose tools and computer equipment	5 years	5 years	5 years
Site preparation, mining development and exploration			5 years

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The estimated useful lives of items of property, plant and equipment were:

2004	Iron ore	Coal	Heavy minerals
Buildings and infrastructure (including residential buildings)	5 – 25 years	5 – 25 years	5 – 40 years
Mineral properties	10 – 25 years	5 – 25 years	10 – 25 years
Fixed plant and equipment	4 – 25 years	5 – 25 years	2,5 – 20 years
Mobile equipment, built-in process computers, underground mining equipment and reconditionable spares	2 – 25 years	30 000 hours or 5 – 15 years	2,5 – 20 years
Loose tools and computer equipment	5 years	5 years	2,5 – 10 years
Development costs	5 – 6 years	8 – 20 years	4 – 10 years
Refractory relines			8 years
Site preparation, mining development and exploration	5 – 25 years	10 – 25 years	3 – 25 years
	Base metals	Industrial minerals	Other
Buildings and infrastructure (including residential buildings)	8 years – indefinite	10 – 25 years	3 – 25 years
Fixed plant and equipment	8 – 25 years	5 – 25 years	5 – 10 years
Mobile equipment, built-in process computers, underground mining equipment and reconditionable spares	2 – 15 years	5 – 15 years	5 years
Loose tools and computer equipment	5 years	5 years	5 years
Site preparation, mining development and exploration			5 years

Maintenance and repairs which neither materially add to the value of assets nor appreciably prolong their useful lives are charged against income.

Direct attributable expenses relating to mining and other major capital projects, site preparations and exploration are capitalised until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent that these are recognised as a provision.

Financing costs directly associated with the construction or acquisition of qualifying assets are capitalised at interest rates relating to loans specifically raised for that purpose, or at the average borrowing rate where the general pool of group borrowings was utilised. Capitalisation of borrowing costs ceases when the asset is substantially complete.

Directly attributable costs associated with the acquisition, development and installation of certain software are capitalised. Such assets are depreciated using the amortisation methods and periods applicable to computer equipment.

Surpluses and deficits on the disposal of property, plant and equipment are taken to profit or loss.

### Leased assets

Leases involving plant and equipment whereby the lessor provides finance to the group with the asset as security and where the group assumes substantially all the benefits and risks of ownership are classified as

finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease and depreciated over the useful life of the asset. The capital element of future obligations under the leases is included as a liability in the balance sheet. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance charge is charged against income over the lease period using the effective interest rate method.

For a sale and leaseback transaction that results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and recognised on the straight-line basis over the period of the lease.

Leases of assets to the group under which all the risks and benefits of ownership are effectively retained by the lessor, are classified as operating leases. Payments made under operating leases are charged against income on the straight-line basis over the period of the lease.

### Biological assets

Biological assets are measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs and any change in value is included in the net profit or loss for the period in which it arises. Plantations are measured at their fair value less estimated point-of-sale costs. The fair value of the plantations is determined by an independent

appraiser, based on the Faustman Formula as applied within the forestry industry. Livestock are measured at their fair value less estimated point-of-sale costs, fair value being determined by the age and size of the animals and market prices. Market price is determined on the basis that the animal is sold to be slaughtered. Livestock held for sale is classified as consumable biological assets. Game is measured at their fair value less estimated point-of-sale costs, fair value being determined as market price. Market price is determined on the live auction selling prices. Game held for sale is classified as consumable biological assets.

#### Intangible assets

An intangible asset is recognised at cost if it is probable that future economic benefits will flow to the enterprise. Amortisation is charged on a systematic basis over the estimated useful lives of the intangible assets.

The estimated maximum useful lives of patents, licenses and franchises are 20 years.

Subsequent expenditure on capitalised intangible assets is capitalised only if it increases the future benefits embodied in the specific asset to which it relates.

#### Research, development and exploration costs

Research, development and exploration costs are charged against income until they result in projects that are evaluated as being technically or commercially feasible, the group has sufficient resources to complete development and can demonstrate how the asset will generate future economic benefits, in which event these costs are capitalised and amortised on the straight-line basis over the estimated useful life of the project or asset. The carrying amounts are reviewed at each balance sheet date to determine whether there is any indication of impairment.

#### Impairment of assets

The carrying amounts of assets mentioned in the accounting policy notes are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated as the higher of the net selling price and the value in use.

In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount.

For an asset that does not generate cash inflows largely independent of those from other assets, the

recoverable amount is determined for the cash generating unit to which the asset belongs. An impairment loss is recognised whenever the carrying amount of the cash generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years. For goodwill a recognised impairment loss is not reversed.

#### Financial instruments

##### Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

##### Investments

Marketable securities are carried at market value, which is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date. Other investments are shown at fair value. Gains and losses are recognised in profit or loss.

##### Trade and other receivables

Trade and other receivables originated by the group are stated at amortised cost less provision for doubtful debts.

##### Cash and cash equivalents

Cash and cash equivalents are measured at fair value.

##### Financial liabilities

Financial liabilities are recognised at amortised cost, namely original debt less principal payments and amortisations, except for derivatives which are subsequently measured at fair value. If a financial liability is designated as a hedged item, it is subject to measurement under hedge accounting provisions.

##### Derivative instruments

Derivative instruments are measured at fair value.

##### Gains and losses on subsequent measurement

Gains and losses on subsequent measurement are recognised as follows:

- Gains and losses arising from a change in the fair value of financial instruments that are not part of a hedging relationship are included in net profit or loss for the period in which they arise
- Gains and losses from measuring fair value hedging instruments, including fair value hedges for foreign currency denominated transactions, are recognised immediately in net profit or loss
- The effective portion of gains and losses from remeasuring cash flow hedging instruments,

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued* for the 12-months ended 31 December 2005

including cash flow hedges for forecast foreign currency denominated transactions and for interest rate swaps, are initially recognised directly in equity. Should the hedged firm commitment or forecast transaction result in the recognition of an asset or a liability, then the cumulative amount recognised in equity is adjusted against the initial measurement of the asset or liability. For other cash flow hedges, the cumulative amount recognised in equity is included in net profit or loss in the period when the commitment or forecast transaction affects profit or loss

- When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative unrealised gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

### *Offset*

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

### *Inventories*

Inventories are valued at the lower of cost, determined on a moving average basis, and net realisable value. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and fixed production overheads, but excludes interest charges. Fixed production overheads are allocated on the basis of normal capacity.

### *Write-downs*

Write-downs to net realisable value and inventory losses are expensed in the period in which the write-downs or losses occur.

### *Foreign currencies*

#### *Transactions and balances*

Transactions denominated in foreign currencies are translated at the rate of exchange ruling at the transaction date. Monetary items denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Gains or losses arising on translation are credited to or charged against income.

### *Foreign entities*

The financial statements of foreign entities are translated into South African rand as follows:

- Assets and liabilities at rates of exchange ruling at balance sheet date
- Income, expenditure and cash flow items at weighted average rates

- Goodwill and fair value adjustments arising on acquisition at rates of exchange ruling at balance sheet date.

All resulting exchange differences are reflected as part of shareholders' equity. On disposal, such translation differences are recognised in the income statement as part of the cumulative gain or loss on disposal.

### *Foreign currency hedges*

Foreign currency hedges are dealt with in the financial instruments accounting policy.

### *Revenue recognition*

Revenue, which excludes value added tax and sales between group companies, represents the gross value of goods invoiced. Export revenues are recorded according to the relevant sales terms, when the risks and rewards of ownership are transferred.

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

Revenue arising from services and royalties is recognised on the accrual basis in accordance with the substance of the relevant agreements.

Revenue from the operation of bulk ships is recognised on a proportionate basis where voyages have not terminated at year end.

### *Interest and dividend income*

Interest is recognised on the time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the group.

Dividends are recognised when the right to receive payment is established.

### *Provisions*

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money, and where appropriate, the risk specific to the liability.

### *Decommissioning and environmental rehabilitation*

Provision is made for environmental rehabilitation costs where either a legal or constructive obligation arises as a result of past events. Estimates are based upon costs that are regularly reviewed and adjusted as appropriate for new circumstances.

Where a provision is made for dismantling and site restoration costs, an asset of similar initial value is

raised and amortised in accordance with the group's accounting policy for property, plant and equipment.

Annual contributions are made to the group's Environmental Rehabilitation Trust Fund, created in accordance with statutory requirements, to provide for the funding of the estimated cost of pollution control and rehabilitation during, and at the end of, the life of mines. The Environmental Rehabilitation Trust Fund has been consolidated.

Expenditure on plant and equipment for pollution control is capitalised and depreciated over the useful lives of the assets whilst the cost of ongoing current programmes to prevent and control pollution and to rehabilitate the environment is charged against income as incurred.

#### Deferred taxation

Deferred taxation is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised.

Deferred taxation is calculated using taxation rates that have been enacted at balance sheet date. The effect on deferred taxation of any changes in taxation rates is charged to the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

#### Employee benefits

##### Post-employment benefits

##### Retirement

The group provides defined contribution funds for the benefit of employees, the assets of which are held in separate funds. These funds are funded by payments from employees and the group, taking account of the recommendations of independent actuaries. The group's contribution to the defined contribution fund is charged to the income statement in the year to which it relates.

Kumba is also a participating employer in two closed defined benefit funds for its pensioner members who retired before the unbundling from Mittal SA in 2001. Kumba does not however provide employee benefits in defined benefit funds for its employees.

Statutory actuarial valuations on the defined benefit plans are performed every three years. Interim valuations are also performed on an annual basis. Valuations are performed on a date which coincide with the balance sheet date. Consideration is given to any event that could impact the funds up to balance sheet date. The net surplus or deficit in the benefit

obligation is the difference between the present value of the funded obligation and the fair value of plan assets. No actuarial surplus is recognised as the group's ability to assess the future economic benefit is uncertain. Actuarial losses, if any, are recognised in income as and when they arise. The group does not provide guarantees in respect of returns in the defined contribution funds.

##### Medical

No contributions are made to the medical aid of retired employees.

##### Short- and long-term benefits

The cost of all short-term employee benefits, such as salaries, bonuses, housing allowances, medical and other contributions, is recognised during the period in which the employee renders the related service.

The vesting portion of long-term benefits is recognised and provided for at balance sheet date, based on the current total cost to the company.

##### Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The group recognises termination benefits when it has demonstrated its commitment to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If the benefits fall due more than 12 months after balance sheet date, they are discounted to present value.

##### Equity compensation benefits

Senior management, including executive directors, has been granted share options. Grants are based on existing ordinary shares and can be purchased or the purchase can be deferred. The option or purchase price equals market price on the date preceding the date of the grant.

When the options are exercised they can either be:

- purchased and if vesting according to the rules of the scheme, recorded in share capital and share premium at the amount of the option price, or
- payment can be deferred resulting in no increase in share capital or share premium until paid for and vesting according to the rules of the scheme.

The fair value of the options granted to senior management including executive directors, has been determined at grant date using a suitable option pricing model and expensed over the vesting period of the options with a corresponding increase in equity.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued* for the 12-months ended 31 December 2005

### Dividend

Dividends paid are recognised by the company when the dividend is declared. These dividends are recorded and disclosed as dividends paid in the statement of changes in equity. Dividends proposed or declared subsequent to the year end are not recognised at the balance sheet date, but are disclosed in the notes to the financial statements.

### Secondary tax on companies

Taxation costs incurred on dividends are included in the taxation line in the income statement in the year in which they are declared.

### Discontinuing operations and non-current assets held for sale

Discontinuing operations are significant, distinguishable components of an enterprise that have been sold, abandoned or are the subject of formal plans for disposal or discontinuance.

The profit or loss on the sale or abandonment of a discontinuing operation is determined from the formalised discontinuance date.

If the carrying amount of a non-current asset or disposal group will be recovered principally through a sale transaction rather than through continuing use, such an asset is classified as non-current assets held for sale and measured at the lower of carrying amount and fair value less cost to sell.

### Segment reporting

The primary business segments are iron ore, coal, heavy minerals, base metals, and industrial minerals.

On a secondary segment basis, significant geographic marketing regions have been identified.

The basis of segment reporting is representative of the internal structure used for management reporting.

### Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call, and investments in money market instruments, net of bank overdrafts, all of which are available for use by the group unless otherwise stated.

### Judgements made by management

The following judgements, apart from those involving estimates (as mentioned below), have been made by management in the process of applying the group's accounting policies that have the most significant effect on the amounts recognised in the financial statements:

- The identification of special purpose entities controlled by the group which must be consolidated
- In applying IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, management had to make judgements as to which non-current assets fall within the scope of the standard and had to be reclassified and measured in terms of IFRS 5
- In applying IFRS 2, Share-Based Payment, management had to make certain judgements in respect of the fair value models to be used in determining the various share-based arrangements in respect of employees, as well as the variable elements used in these models.

### Key assumptions made by management in applying accounting policies

The following key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- Estimates made in determining the present obligation of environmental and decommissioning provisions, which includes the discount rate used in determining the present value of environmental and decommissioning provisions
- Estimates made in determining the recoverable amount of assets where there is an indication that an asset may be impaired, this includes the estimation of cash flows and the discount rates used
- Estimates made in determining the probability of future taxable income thereby justifying the recognition of a deferred tax asset.

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>12-months ended 31 Dec 2005 Rm</b>	Restated 18-months ended 31 Dec 2004 Rm	<b>12-months ended 31 Dec 2005 Rm</b>	Restated 18-months ended 31 Dec 2004 Rm
<b>2. PRIOR YEAR ADJUSTMENTS/CHANGES IN ACCOUNTING POLICIES</b>				
<b>Share-based payments</b>				
As part of the IFRS improvements project Kumba adopted IFRS 2 Share-Based Payments. The adoption of IFRS 2 is made in accordance with the transitional provision of IFRS 2. Prior years' figures have been restated. The amount of the adjustment for the current and comparable periods is as follows:				
<i>Income statement impact</i>				
– Reduction of profit for the period	<b>38</b>	30	<b>22</b>	16
<i>Balance sheet impact</i>				
– Retained income decrease	<b>72</b>	34	<b>41</b>	19
– Equity-settled reserve increase	<b>72</b>	34	<b>72</b>	34
– Increase in loans from subsidiaries			<b>31</b>	15
The adjustment has no taxation implications. There were no amounts attributable to the minorities.				
The amount of the adjustment relating to the 30 June 2003 financial statements is a decrease of R4 million in retained income and an increase of R4 million in equity-settled reserves.				
<b>Business combination</b>				
In line with IFRS 3 Business Combinations the carrying value of previously recognised negative goodwill at the beginning of the period was derecognised and adjusted against the opening balance of retained earnings. The effect of the adjustment is as follows:				
<i>No income statement impact</i>				
<i>Balance sheet impact</i>				
– Decrease in negative goodwill	<b>53</b>			
– Increase in retained income	<b>53</b>			
<b>Environmental rehabilitation provision</b>				
A legal and constructive obligation exists to provide for rehabilitation at the Zincor refinery. The provision has been accounted for as a prior year adjustment to reflect the existence of the obligation originating from previous periods. The effect of the adjustment is as follows:				
<i>Income statement impact</i>				
– Increase in finance charges	<b>17</b>	23		
– Decrease in deferred taxation	<b>2</b>	2		
<i>Balance sheet impact</i>				
– Decrease in retained income	<b>172</b>	157		
– Increase in provisions	<b>191</b>	174		
– Increase in deferred tax asset	<b>2</b>	15		
– Decrease in deferred tax liability		2		

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	GROUP		COMPANY	
	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm
2. PRIOR YEAR ADJUSTMENTS/CHANGES IN ACCOUNTING POLICIES (continued)				
Deferred taxation				
A deferred tax asset was raised as a prior year adjustment in respect of Ticor (Pty) Limited's eligibility to claim a bad debt deduction of A\$130,7 million at 31 December 2002.				
The effect of the adjustment is as follows:				
<i>No income statement impact</i>				
<i>Balance sheet impact</i>				
– Increase in retained income	93	93		
– Increase in minority interest	87	87		
– Increase in deferred tax asset	180	180		
Interest in joint ventures				
Kumba's majority shareholder and parent, Anglo American plc (Anglo) changed its accounting policies to be in line with IFRS with effect 1 January 2005. Anglo elected to account for interests in joint ventures per IAS 31, by applying the proportionate consolidation method. To be consistent with the parent entity's policies Kumba changed its accounting policy to the proportionate consolidation method. Prior years' figures have been restated. This policy change does not impact on earnings per share. The effect of the change in accounting policy is as follows:				
<i>Income statement impact</i>				
– Increase in net operating profit	26	20		
– Increase in interest income	1			
– Decrease in income from equity accounted investments	27	20		
<i>Balance sheet impact</i>				
– Decrease in investments in joint ventures	38	11		
– Increase in property, plant and equipment	3	3		
– Increase in financial assets	2	1		
– Decrease in trade and other receivables		32		
– Increase in cash and cash equivalents	63	39		
– Increase in trade and other payables	48			
– Decrease in net debt	63	39		
<i>Cash flow impact</i>				
– Increase in net cash flows from operating activities	22	29		
– Increase in taxation paid		2		
– Increase in financial assets	1			
– Increase in borrowings raised	1			
– Increase in foreign currency translation	3			
– Increase in opening balance of cash and cash equivalents	39	12		

	GROUP		COMPANY	
	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm
<b>2. PRIOR YEAR ADJUSTMENTS/CHANGES IN ACCOUNTING POLICIES (continued)</b>				
<b>Reclassification and presentation</b>				
The group has changed the following accounting policies to be in line with the accounting policies of its majority shareholder and parent, Anglo American plc:				
– The equity accounted investments' recognised profits were previously transferred to a non-distributable reserve (NDR) "Attributable reserves of equity accounted investments". The opening balance of R20 million (2003: R11 million) of this reserve was reclassified as distributable reserves and transfers to this reserve have ceased.				
– Income from equity accounted investments was previously presented as pre-tax income, and the tax shown as part of the taxation charge. Only the post-tax share of equity accounted profits are now disclosed. The net effect on earnings is zero, however, the line-by-line effect on the income statement is as follows:				
– Decrease in income from equity accounted investments	2	9		
– Decrease in taxation	2	9		
<b>3. CLOSURE OF TICOR CHEMICALS PLANT</b>				
On 21 April 2004 Ticor Limited announced its intention to discontinue its chemicals business, included in the heavy minerals segment. The revenue, operating results, assets, liabilities and cash flow of the chemicals business for the current and previous periods are:				
Revenue	1	217		
Expenses	2	192		
Provision for closure		35		
Provision for impairment		89		
Pre-tax loss	(3)	(102)		
Income tax expense		28		
Total assets	9	76		
Total external liabilities	1	6		
Cash inflows from operating activities	26	50		
<b>4. REVENUE</b>				
Sale of goods	11 962	12 600	7	12
Services			579	709
	11 962	12 600	586	721

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	Notes	GROUP		COMPANY	
		12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm
<b>5. OPERATING EXPENSES</b>					
<b>Cost by type</b>					
– Raw materials and consumables		1 893	2 475	25	37
– Staff costs					
– salaries and wages		1 898	2 408	287	297
– share-based payments		38	30	22	16
– termination benefits		7	35	1	5
– pension and medical costs		167	243	22	27
– Income from sale of investments		(1 179)	(72)		(84)
– General charges		1 126	1 883	324	339
– Railage and transport		1 470	1 783	1	2
– Repairs and maintenance		845	1 081	8	9
– Impairment charges	8	28	35	7	51
– Negative goodwill amortisation	16		(6)		
– Excess of minority interest over cost of acquisition		(95)			
– Energy		361	508	5	6
– Depreciation on property, plant and equipment	13	894	969	7	8
– Amortisation of intangible assets	15	4	8		
– Movement in inventories		(348)	(304)		
– Own work capitalised		(6)	(296)		
– Sublease received		(28)	(25)	(16)	(6)
		<b>7 075</b>	<b>10 755</b>	<b>693</b>	<b>707</b>
<b>Cost by function</b>					
– Costs of goods sold/services rendered		6 857	9 025	702	746
– Selling and distribution costs		1 492	1 798		
– Sublease rent received		(28)	(25)	(16)	(6)
– Impairment charges	8	28	35	7	51
– Negative goodwill amortisation	16		(6)		
– Excess of minority interest over cost of acquisition		(95)			
– Income from sale of investments		(1 179)	(72)		(84)
		<b>7 075</b>	<b>10 755</b>	<b>693</b>	<b>707</b>
The above costs are stated after including:					
Depreciation and amortisation					
– land and buildings	13		1		
– mineral properties	13	37	54		
– residential buildings	13	7	8		
– buildings and infrastructure	13	104	117		1
– machinery, plant and equipment	13	620	673	7	7
– leased assets under finance leases	13	2	4		
– site preparation, mining development, exploration and rehabilitation	13	124	112		
– amortisation of intangible assets	15	4	8		
Impairment charges	8	28	35	7	51
Negative goodwill amortisation	16		(6)		
Excess of minority interest over cost of acquisition		(95)			
Closure cost			35		
Reconditionable spares usage		6	11		
Research and development costs		26	33	9	12
Consultancy fees		126	228	70	92

	GROUP		COMPANY	
	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm
<b>5. OPERATING EXPENSES (continued)</b>				
Operating lease rentals expenses				
– property	56	79	19	28
– equipment	69	93	19	31
Operating sublease rentals received				
– property	(28)	(25)	(16)	(6)
– other	(1)	(1)		
Net deficit on disposal or scrapping of property, plant and equipment	2	48	2	2
Net profit on disposal of investments	(1 179)	(72)		(84)
Auditors' remuneration				
– audit fees	9	12	3	4
– other services	1	1		
Fair value adjustment on financial assets – (gain)/loss	(43)	(28)	22	13
Fair value adjustment on financial liabilities – (gain)/loss	(5)	5	(5)	5
Net realised (gains)/losses on currency exchange differences	(225)	210	17	20
Net unrealised losses/(gains) on currency exchange differences	76	(121)	63	(118)
Net realised losses/(gains) on the revaluation of derivative instruments	64	(173)	8	(22)
Net unrealised (gains)/losses on the revaluation of derivative instruments	(83)	124	(72)	129
Directors' emoluments				
– executive directors				
– remuneration received as directors of the company			14	18
– bonuses and cash incentives			1	1
– compensation on retirement from executive office			1	
– non-executive directors				
– remuneration received as directors of the company			2	3
<b>Note</b>				
<b>Pensions</b>				
Retirement amounts paid or receivable by executive directors are paid or received under defined contribution retirement funds.				
<b>6. NET FINANCING COSTS</b>				
Interest expense and loan costs	338	396	144	283
Finance leases	1	6		
Interest income	(147)	(41)	(24)	(12)
Interest received from joint ventures	(3)	(6)	(3)	(6)
Net interest expense	189	355	117	265
Interest adjustment on non-current provisions (note 26)	42	69	1	7
	231	424	118	272

Financing costs of Rnil were capitalised during the year (2004: R176 million).

Financing costs capitalised relates to funds specifically borrowed for the purposes of obtaining a qualifying asset.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*  
for the 12-months ended 31 December 2005

	GROUP		COMPANY	
	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm
<b>7. INCOME FROM INVESTMENTS</b>				
Subsidiaries				
Unlisted shares				
– Dividends			1 394	381
– Net interest received			158	269
			<b>1 552</b>	<b>650</b>
<b>8. IMPAIRMENT CHARGES</b>				
Included in operating expenses are the following impairment losses:				
Impairment of cyanide chemicals plant		(89)		
Impairment of property, plant and equipment	(3)	(15)		
Impairment of intangible assets	(20)	(11)		
Impairment of investments		(10)		
Impairment of joint ventures	(7)	(1)	(7)	
Impairment of associates				(51)
<b>Total impairment charges</b>	<b>(30)</b>	<b>(126)</b>	<b>(7)</b>	<b>(51)</b>
Reversal of impairment of shipping assets		90		
Reversal of impairment of property, plant and equipment	2	1		
<b>Total impairment reversals</b>	<b>2</b>	<b>91</b>		
<b>Net impairments</b>	<b>(28)</b>	<b>(35)</b>	<b>(7)</b>	<b>(51)</b>
Taxation effect				
<b>Net effect on attributable earnings</b>	<b>(28)</b>	<b>(35)</b>	<b>(7)</b>	<b>(51)</b>

The intangible asset impaired during the current year is a database of heavy mineral reserves which is now common knowledge and not proprietary to Kumba's heavy minerals business. As such no future economic benefits are expected to arise from the intangible asset thereby warranting derecognition. The carrying amounts of certain other investments were greater than the market value and were impaired.

	GROUP		COMPANY	
	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm
<b>9. TAXATION</b>				
<b>Charge to income</b>				
South African normal taxation				
– Current – current year	(794)	(323)		(15)
– prior year	(9)		(7)	
	<b>(803)</b>	<b>(323)</b>	<b>(7)</b>	<b>(15)</b>
– Deferred – current year	8	11		1
– prior year	(1)	14		
– rate adjustment	29		(1)	
	<b>36</b>	<b>25</b>	<b>(1)</b>	<b>1</b>
Foreign normal taxation				
– Current – current year	(184)	(48)		
– prior year	22	11		
	<b>(162)</b>	<b>(37)</b>		
– Deferred – current year	102	(43)		
– prior year	(28)	(2)		
	<b>74</b>	<b>(45)</b>		
Share of joint ventures taxation	1	2		
Capital gains taxation	(349)			
Secondary taxation on companies	(179)	(43)	(179)	(37)
Non-residents withholding taxation	(30)	(2)		
<b>Total</b>	<b>(1 412)</b>	<b>(423)</b>	<b>(187)</b>	<b>(51)</b>
<b>Reconciliation of taxation rates</b>	%	%	%	%
Taxation as a percentage of profit before taxation	30,3	30,7	14,1	13,0
Taxation effect of				
– Assessed losses (not provided)	(1,5)	(0,9)		
– Capital profits/(losses)	0,8	(1,8)	(0,5)	1
– Disallowable expenditure	(4,2)	(5,1)	(0,9)	(3,6)
– Exempt income	8,6	9,3	30,5	29,1
– Learnership allowances		0,2		
– Associates' and joint ventures' differences		(1,1)		
– Tax rate differentials	(0,4)	0,4		
– Temporary differences not provided	(0,6)			
– Rate change on deferred taxation balances	0,6		(0,1)	
– Secondary taxation on companies	(3,8)	(3,1)	(13,5)	(9,5)
– Withholding taxation	(0,6)	(0,2)		
– Controlled foreign company profits	(0,5)	(0,1)		
– Prior year adjustment	0,3	1,7	(0,6)	
<b>Standard tax rate</b>	<b>29,0</b>	<b>30,0</b>	<b>29,0</b>	<b>30,0</b>
Effective tax rate excluding (loss)/income from equity accounted investments, impairment charges and share of taxation thereon	<b>30,2</b>	<b>29,2</b>		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*  
for the 12-months ended 31 December 2005

	<b>GROUP</b>	
	<b>12-months ended 31 Dec 2005</b>	Restated 18-months ended 31 Dec 2004
<b>10. EARNINGS PER SHARE</b>		
Basic headline earnings per share is calculated by dividing the headline earnings by the weighted average number of ordinary shares in issue during the year.		
Headline earnings (R million)	<b>2 373</b>	966
Weighted average number of ordinary shares in issue (million)	<b>304</b>	301
Adjusted for the shares held by the Kumba Management Share Trust (million)		(1)
Adjusted weighted average number of ordinary shares in issue (million)	<b>304</b>	300
Headline earnings per share (cents) (restated for 2004)	<b>781</b>	322
For the diluted headline earnings per share the weighted average number of ordinary shares is adjusted to assume conversion of not yet released purchased shares and options under the Management Share Scheme, net of shares held by the scheme for releasing purposes. Diluted headline earnings per share is calculated by dividing headline earnings by the adjusted weighted average number of shares in issue.		
Weighted average number of ordinary shares in issue (million) as calculated above	<b>304</b>	300
Adjusted for options and net purchased shares in terms of the Management Share Scheme (million)	<b>7</b>	2
Weighted average number of ordinary shares for diluted headline earnings per share (million)	<b>311</b>	302
Diluted headline earnings per share (cents) (restated for 2004)	<b>763</b>	320
Basic attributable earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.		
Net profit attributable to ordinary shareholders (R million)	<b>3 190</b>	891
Weighted average number of ordinary shares in issue (million)	<b>304</b>	300
Basic earnings per share (cents) (restated for 2004)	<b>1 049</b>	297
For the diluted attributable earnings per share the weighted average number of ordinary shares is adjusted as above.		
Diluted earnings per share (cents) (restated for 2004)	<b>1 026</b>	295
For the current year, certain shares under option had an effect on the adjusted weighted average number of shares in issue as the average option price attached to the option shares was lower than the average market price.		
<b>11. DIVIDEND</b>		
The company declared a final dividend for the year of R1,60 per share (2004: R0,90 per share) which totalled R490 million (2004: R273 million) on 15 February 2006 for payment in March 2006, which will attract STC of R61 million (2004: R34 million). During September 2005 the company paid an interim dividend and a special dividend of R1,60 and R2,20 per share respectively, totalling R1 157 million, which attracted STC of R145 million.		

	Notes	GROUP		COMPANY	
		12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm
<b>12. RECONCILIATION OF HEADLINE EARNINGS</b>					
Net profit attributable to ordinary shareholders		<b>3 190</b>	891		
Adjusted for:					
– Impairment charges	8	<b>28</b>	35		
– Share of associates goodwill amortisation	17		27		
– Negative goodwill amortisation	16		(6)		
– Excess of minority interest over cost of acquisition		<b>(95)</b>			
– Share of associates exceptional items	17		20		
– Net deficit on disposal or scrapping of property, plant and equipment	5	<b>2</b>	48		
– Net surplus on disposal of investments	5	<b>(1 179)</b>	(72)		
– Closure cost	5		35		
Minority interest on adjustments		<b>(1)</b>			
Taxation effect of adjustments		<b>428</b>	(12)		
<b>Headline earnings</b>		<b>2 373</b>	966		
<b>Headline earnings per share (cents)</b>	10				
– basic (2004 as previously reported)		<b>781</b>	339		
– basic restated for December 2004			322		
– diluted (2004 as previously reported)		<b>763</b>	337		
– diluted restated for December 2004			320		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*  
for the 12-months ended 31 December 2005

	Land and buildings Rm	Mineral properties Rm	Residential land and buildings Rm	Buildings and infra- structure Rm	Machinery, plant and equipment Rm	Site pre- paration, mining develop- ment, exploration and reha- bilitation Rm	Extensions under construction Rm	Total Rm
<b>13. PROPERTY, PLANT AND EQUIPMENT</b>								
<i>Group</i>								
<i>2005</i>								
<i>Gross carrying amount</i>								
At beginning of year	144	1 023	121	1 820	7 890	1 285	590	12 873
Decommissioning assets			1	15	50	6		72
Adjusted opening balance	144	1 023	122	1 835	7 940	1 291	590	12 945
Additions	4		2	30	251	1	756	1 044
Non-cash flow additions <sup>1</sup>			1	1	27	72	6	107
Changes in decommissioning assets			3		2	9		14
Disposal of subsidiary					(16)			(16)
Disposals of items of property, plant and equipment	(4)		(4)	(23)	(162)		(1)	(194)
Reclassification to non-current assets classified as held for sale	(5)		(8)					(13)
Exchange differences on translation	1	17		10	71	15	(1)	113
Other movements			1	(202)	534	120	(453)	
At end of year	140	1 040	117	1 651	8 647	1 508	897	14 000
<i>Accumulated depreciation</i>								
At beginning of year		170	70	529	2 985	545		4 299
Decommissioning of assets				3	15	4		22
Adjusted opening balance		170	70	532	3 000	549		4 321
Depreciation charges		37	7	104	622	124		894
Disposal of subsidiary					(2)			(2)
Accumulated depreciation on disposals of items of property, plant and equipment			(2)	(9)	(69)			(80)
Reclassification to non-current assets classified as held for sale			(5)					(5)
Exchange differences on translation		4		3	29	5		41
Other movements				(156)	165	(9)		
At end of year		211	70	474	3 745	669		5 169
<i>Impairment of assets</i>								
At beginning of year				8	89		1	98
Impairment reversals					(2)			(2)
Impairment charges		1		2				3
Disposals of items of property, plant and equipment				(8)	(78)		(1)	(87)
Disposals of subsidiaries					(12)			(12)
Exchange differences on translation					5			5
		1		2	2			5
<i>Net carrying amount at end of year</i>	140	828	47	1 175	4 900	839	897	8 826

	Land and buildings Rm	Mineral properties Rm	Residential land and buildings Rm	Buildings and infrastructure Rm	Machinery, plant and equipment Rm	Site preparation, mining development, exploration and rehabilitation Rm	Extensions under construction Rm	Total Rm
<b>13. PROPERTY, PLANT AND EQUIPMENT (continued)</b>								
<b>2004</b>								
<i>Restated</i>								
<i>Gross carrying amount</i>								
At beginning of period	141	1 056	120	1 609	7 143	1 071	858	11 998
Joint ventures now consolidated	3							3
Adjusted opening balance	144	1 056	120	1 609	7 143	1 071	858	12 001
Additions	8	3	9	184	829	16	347	1 396
Non-cash flow additions		4	1	6	31	25	191	258
Changes in decommissioning assets						(2)		(2)
Disposals of items of property, plant and equipment	(4)		(13)	(11)	(349)		(32)	(409)
Exchange differences on translation	(2)	(40)		(23)	(264)	(35)	(7)	(371)
Other movements	(2)		4	55	500	210	(767)	
At end of period	144	1 023	121	1 820	7 890	1 285	590	12 873
<i>Accumulated depreciation</i>								
At beginning of period		125	71	422	2 646	438		3 702
Depreciation charges	1	54	8	117	677	112		969
Accumulated depreciation on disposals of items of property, plant and equipment			(9)	(2)	(213)			(224)
Exchange differences on translation	(1)	(9)		(9)	(119)	(10)		(148)
Other movements				1	(6)	5		
At end of period		170	70	529	2 985	545		4 299
<i>Impairment of assets</i>								
At beginning of period					90	1		91
Impairment reversals					(90)	(1)		(91)
Impairment charges				9	94		1	104
Exchange differences on translation				(1)	(5)			(6)
				8	89		1	98
<b>Net carrying amount at end of period</b>	<b>144</b>	<b>853</b>	<b>51</b>	<b>1 283</b>	<b>4 816</b>	<b>740</b>	<b>589</b>	<b>8 476</b>

1. Non-cash flow additions relates to capital expenditure of captive mines which are financed by Mittal Steel South Africa.

	2005 Rm	2004 Rm
The net carrying amount of machinery, plant and equipment includes:		
Assets held under finance leases (note 24)		
– cost	2	55
– accumulated depreciation	1	6
	1	49

For detail of property, plant and equipment pledged as security refer to annexure 1.

The replacement value of assets for insurance purposes amounts to R18,8 billion (2004: R19,7 billion).

A register of land and buildings is available for inspection at the registered office of the company.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*  
for the 12-months ended 31 December 2005

	Land and buildings Rm	Mineral properties Rm	Residential land and buildings Rm	Buildings and infra- structure Rm	Machinery, plant and equipment Rm	Site pre- paration, mining develop- ment, exploration and reha- bilitation Rm	Extensions under construction Rm	Total Rm
<b>13. PROPERTY, PLANT AND EQUIPMENT (continued)</b>								
<i>Company</i>								
<i>2005</i>								
<i>Gross carrying amount</i>								
At beginning of year				13	39		29	81
Additions					5		20	25
Disposals of items of property, plant and equipment				(3)	(15)			(18)
Other movements					25		(25)	
At end of year				10	54		24	88
<i>Accumulated depreciation</i>								
At beginning of year				7	29			36
Depreciation charges					7			7
Accumulated depreciation on disposals of items of property, plant and equipment				(1)	(13)			(14)
At end of year				6	23			29
<i>Net carrying amount at end of year</i>				4	31		24	59
<i>2004</i>								
<i>Restated</i>								
<i>Gross carrying amount</i>								
At beginning of period				13	41		15	69
Additions					2		14	16
Disposals					(4)			(4)
At end of period				13	39		29	81
<i>Accumulated depreciation</i>								
At beginning of period				6	25			31
Depreciation charges				1	7			8
Accumulated depreciation on disposals					(3)			(3)
At end of period				7	29			36
<i>Net carrying amount at end of period</i>				6	10		29	45

	Plantation Rm	Livestock Rm	Game Rm	Total Rm
<b>14. BIOLOGICAL ASSETS</b>				
<i>Group</i>				
<b>2005</b>				
<i>Carrying amount</i>				
At beginning of period	<b>6</b>	<b>10</b>	<b>15</b>	<b>31</b>
Gains arising from changes attributable to physical changes and price changes	<b>1</b>	<b>2</b>	<b>2</b>	<b>5</b>
Disposals		<b>(5)</b>		<b>(5)</b>
Reclassification to inventory	<b>(1)</b>		<b>(2)</b>	<b>(3)</b>
At end of period	<b>6</b>	<b>7</b>	<b>15</b>	<b>28</b>
Fair value of biological assets can be split as follows:				
Mature	<b>4</b>	<b>7</b>	<b>14</b>	<b>25</b>
Immature	<b>3</b>			<b>3</b>
	<b>7</b>	<b>7</b>	<b>14</b>	<b>28</b>
The plantation was valued by Mr JM Potgieter, an independent appraiser, on 8 December 2005.				
<b>2004</b>				
<i>Restated</i>				
At beginning of year	6	7	16	29
Acquisitions			1	1
Gains arising from changes attributable to physical changes and price changes	1	5		6
Disposals		(2)		(2)
Reclassification to inventory	(1)		(2)	(3)
At end of year	6	10	15	31
Fair value of biological assets can be split as follows:				
Mature	1	10	15	26
Immature	5			5
	6	10	15	31
Plantations consist of wattle and blue gum trees.				
Livestock consists of cattle, sheep and goats.				
Game consists of rhino, buffalo, warthog, giraffe, ostrich and a large variety of antelope.				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*  
for the 12-months ended 31 December 2005

	GROUP		COMPANY	
	At 31 Dec 2005 Rm	Restated At 31 Dec 2004 Rm	At 31 Dec 2005 Rm	Restated At 31 Dec 2004 Rm
<b>15. INTANGIBLE ASSETS</b>				
<i>Patents, licences and franchise</i>				
<i>Gross carrying amount</i>				
At beginning of period	105	117		
Additions	11			
Disposal of subsidiary	(12)			
Intangible assets written off	(29)			
Exchange differences	6	(12)		
At end of period	81	105		
<i>Accumulated amortisation</i>				
At beginning of period	23	19		
Disposal of subsidiary	(1)			
Intangible assets written off	(7)			
Amortisation charge	4	8		
Exchange differences	1	(4)		
At end of period	20	23		
<i>Impairment charge</i>				
At beginning of period	11			
Exchange differences	1			
Charge for the period	20	11		
Disposal of subsidiary	(11)			
Intangible assets written off	(21)			
At end of period		11		
<i>Net carrying amount at end of year</i>	61	71		
<b>16. GOODWILL</b>				
<i>Positive goodwill</i>				
At beginning of period				
At end of period				
Comprising:				
Cost	243	243		
Accumulated amortisation	243	243		
<i>Negative goodwill</i>				
At beginning of period	(53)	(80)		
Derecognised, adjusted to opening balance of retained earnings	53			
Exchange differences		21		
Amortisation		6		
At end of period		(53)		
Derecognised negative goodwill comprises:				
Cost	(61)	(61)		
Accumulated amortisation	8	8		
	(53)	(53)		

The negative goodwill, which arose during 2003, resulted from the acquisition of Ticor Limited and was previously being amortised over 12,7 years, was adjusted against opening retained income in accordance with IFRS 3 (note 2).

	GROUP		COMPANY	
	At 31 Dec 2005 Rm	Restated At 31 Dec 2004 Rm	At 31 Dec 2005 Rm	Restated At 31 Dec 2004 Rm
<b>17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES</b>				
<i>Associated companies</i>				
– Listed		6		24
– Unlisted	<b>93</b>	72		
	<b>93</b>	78		24
<i>Joint ventures (Unlisted)</i>				
– Incorporated	<b>2</b>	7		7
– Unincorporated				
	<b>2</b>	7		7
<b>Total</b>	<b>95</b>	85		31

Refer to annexure 2 for market and directors' valuations of investments.

	ASSOCIATE COMPANIES			JOINT VENTURES		
	Investments at 31 Dec 2005 Rm	Loans at 31 Dec 2005 Rm	Total at 31 Dec 2005 Rm	Investments at 31 Dec 2005 Rm	Loans at 31 Dec 2005 Rm	Total at 31 Dec 2005 Rm
<b>Group</b>						
At beginning of year	<b>78</b>		<b>78</b>	<b>7</b>		<b>7</b>
Reclassification as associate	<b>2</b>		<b>2</b>			
Reclassification as non-current asset classified as held for sale	<b>(2)</b>		<b>(2)</b>			
Movement in indebtedness from joint ventures					<b>2</b>	<b>2</b>
Net share of results*	<b>7</b>		<b>7</b>			
– Share of results after taxation	<b>7</b>		<b>7</b>			
Exchange difference adjustments	<b>8</b>		<b>8</b>			
Impairment charges				<b>(7)</b>		<b>(7)</b>
<b>At end of year (annexure 2)</b>	<b>93</b>		<b>93</b>		<b>2</b>	<b>2</b>

	ASSOCIATE COMPANIES			JOINT VENTURES		
	Investments at 31 Dec 2004 Rm	Loans at 31 Dec 2004 Rm	Total at 31 Dec 2004 Rm	Investments at 31 Dec 2004 Rm	Loans at 31 Dec 2004 Rm	Total at 31 Dec 2004 Rm
<b>Restated</b>						
At beginning of period as previously disclosed	62	39	101	18		18
Reclassification as associate	14	(1)	13			
Joint ventures now consolidated				(10)		(10)
Restated opening balance	76	38	114	8		8
Reclassification as financial asset		(35)	(35)			
Additional interests acquired	85		85			
Movement in indebtedness to/from associated companies/repayments		(2)	(2)			
Disposals	(21)		(21)			
Net share of results*	(42)		(42)			
– Share of results after taxation	5		5			
– Share of exceptional items	(20)		(20)			
– Share of goodwill	(27)		(27)			
Exchange difference adjustments	(20)	(1)	(21)	(1)		(1)
<b>At end of period (annexure 2)</b>	<b>78</b>		<b>78</b>	<b>7</b>		<b>7</b>

\* Income from equity accounted investments, as disclosed in the income statement, amounted to R7 million (2004: loss R42 million).

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	At 31 Dec 2005 Rm	Restated At 31 Dec 2004 Rm
<b>17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)</b>		
Aggregate post-acquisition reserves:		
– Associate companies	(62)	(80)
– Joint ventures	1 863	1 710
<b>Total</b>	<b>1 801</b>	<b>1 630</b>

	ASSOCIATE COMPANIES			JOINT VENTURES		
	Investments at 31 Dec 2005 Rm	Loans at 31 Dec 2005 Rm	Total at 31 Dec 2005 Rm	Investments at 31 Dec 2005 Rm	Loans at 31 Dec 2005 Rm	Total at 31 Dec 2005 Rm
<b>Company</b>						
At beginning of year	24		24	7		7
Associate reclassified as financial asset	(24)		(24)			
Impairment loss				(7)		(7)
<b>At end of year (annexure 2)</b>						

	ASSOCIATE COMPANIES			JOINT VENTURES		
	Investments at 31 Dec 2004 Rm	Loans at 31 Dec 2004 Rm	Total at 31 Dec 2004 Rm	Investments at 31 Dec 2004 Rm	Loans at 31 Dec 2004 Rm	Total at 31 Dec 2004 Rm
<b>Restated</b>						
At beginning of period	51	35	86	7		7
Additional interests acquired	24		24			
Reclassification as financial asset		(35)	(35)			
Impairment loss	(51)		(51)			
<b>At end of period (annexure 2)</b>	<b>24</b>		<b>24</b>	<b>7</b>		<b>7</b>

	GROUP		COMPANY	
	At 31 Dec 2005 Rm	Restated At 31 Dec 2004 Rm	At 31 Dec 2005 Rm	Restated At 31 Dec 2004 Rm
<b>18. INVESTMENTS IN SUBSIDIARIES</b>				
Shares at cost less impairment losses			1 513	1 609
Indebtedness				
– by subsidiaries			2 641	3 041
– to subsidiaries			(305)	(174)
			2 336	2 867
<b>Total (annexure 3)</b>			<b>3 849</b>	<b>4 476</b>
Aggregate attributable after tax profits and losses of subsidiaries:				
– Profits	12 805	8 052		
– Losses	(6 992)	(5 042)		
<b>19. FINANCIAL ASSETS</b>				
Environmental Rehabilitation Trust Asset	257	183	7	5
Long-term receivables	40	50	15	23
Investments (annexure 2)	95	53	28	26
	392	286	50	54
<b>20. INVENTORIES</b>				
Finished products	398	365		
Work-in-progress	625	603		
Raw materials	165	131		
Plant spares and stores	285	240		
Merchandise	8	9		
	1 481	1 348		
Included above are inventories relating to the Ticor SA project which might be sold or utilised in production over more than twelve months. Included in merchandise are biological assets classified as inventories.				
Inventory sold in which delivery is delayed at the buyer's request, but the buyer takes title amounted to Rnil (2004: R25 million).				
<b>21. TRADE AND OTHER RECEIVABLES</b>				
Trade receivables	1 948	1 118	1	2
Other receivables	95	156	36	46
Derivative instruments	23	91	9	20
	2 066	1 365	46	68
<b>22. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE</b>				
Property, plant and equipment	9			
Investments in associates and joint ventures	2			
At end of period	11			

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*  
for the 12-months ended 31 December 2005

	GROUP		COMPANY	
	At 31 Dec 2005 Rm	Restated At 31 Dec 2004 Rm	At 31 Dec 2005 Rm	Restated At 31 Dec 2004 Rm
<b>23. SHARE CAPITAL</b>				
<i>Share capital at par value</i>				
<i>Authorised</i>				
500 000 000 ordinary shares of R0,01 each	5	5	5	5
<i>Issued</i>				
306 162 251 (301 854 211) ordinary shares of R0,01 each	3	3	3	3
Share premium	2 941	2 809	2 941	2 809
Shares held by Kumba Management Share Trust	(4)			
<b>Total</b>	<b>2 940</b>	<b>2 812</b>	<b>2 944</b>	<b>2 812</b>
The Kumba Management Share Trust has been consolidated.				
<i>Reconciliation of authorised shares not issued (million)</i>				
Number of authorised unissued ordinary shares at beginning of period	198	203	198	203
Number of shares issued during the period	(4)	(5)	(4)	(5)
Number of unissued authorised shares at end of period	194	198	194	198

The following resolutions pertain to the unissued ordinary shares under the control of the directors until the forthcoming annual general meeting:

- Subject to the provisions of the Companies Act 61 of 1973, as amended ("the Act"), and the requirements of the JSE Limited ("JSE"), the directors be and are hereby authorised to allot and issue at their discretion such number of the remaining authorised but unissued ordinary shares of one cent each in the capital of the company as may be required to be allotted and issued pursuant to the Share Incentive Scheme ("the Scheme").
- Directors are authorised to issue the unissued ordinary shares of one cent each in the capital of the company (after setting aside so many shares as may be required to be allotted and issued by the company pursuant to the Scheme) for cash, without restrictions to any public shareholder, as defined by the JSE Listings Requirements, as and when suitable opportunities arise, subject to the following conditions:
  - this authority shall not extend beyond the next annual general meeting or 15 months from the date of this annual general meeting, whichever date is earlier;
  - a press announcement giving full details, including the impact on net asset value and earnings per share, be published at the time of any issue representing, on a cumulative basis within one year, 5% or more of the number of shares in issue prior to the issue/s;
  - the shares be issued to public shareholders as defined by the JSE and not to related parties;
  - any issue in the aggregate in any one year shall not exceed 15% of the number of shares of the company's issued ordinary share capital; and
  - in determining the price at which an issue of shares be made in terms of this authority, the maximum discount permitted will be 10% of the weighted average traded price of the shares over the 30 days prior to the date that the price of the issue is determined or agreed to by the directors. In the event that shares have not traded in the said 30 day period a ruling will be obtained from the committee of the JSE.
- Directors are authorised to acquire from time to time shares issued by the company, provided:
  - that the repurchase is effected through the order book operated by the JSE trading system and is done without any prior understanding or arrangement between the company and the counterparty;
  - that this authority shall not extend beyond 15 months from the date of this resolution or the date of the next annual general meeting, whichever is the earlier date;
  - that an announcement containing full details of such repurchases is published as soon as the company has repurchased shares constituting, on a cumulative basis, 3% of the number of shares in issue prior to the repurchases and for each 3%, on a cumulative basis, thereafter;
  - that the repurchase of shares shall not, in the aggregate, in any one financial year, exceed 20% of the company's issued share capital at the time this authority is given;
  - that at any one time, the company may only appoint one agent to effect any repurchase;
  - that the repurchase of shares will not take place during a prohibited period and will not affect compliance with the shareholders' spread requirements as laid down by the JSE; and
  - that shares issued by the company may not be acquired at a price greater than 10% above the weighted average traded price of the company's shares for the five business days immediately preceding the date of repurchase.

The above authorities are valid until the next annual general meeting.

	GROUP		COMPANY	
	At 31 Dec 2005 Rm	Restated At 31 Dec 2004 Rm	At 31 Dec 2005 Rm	Restated At 31 Dec 2004 Rm
<b>24. INTEREST-BEARING BORROWINGS</b>				
<b>Non-current borrowings</b>				
Summary of loans by financial year of redemption				
2005		784		368
2006	<b>686</b>	556	<b>136</b>	385
2007	<b>932</b>	865	<b>737</b>	670
2008	<b>485</b>	234	<b>307</b>	57
2009	<b>218</b>	676		
2010 onwards	<b>328</b>			
Total non-current borrowings (annexure 1)	<b>2 649</b>	3 115	<b>1 180</b>	1 480
Current portion included in current liabilities	<b>(686)</b>	(784)	<b>(136)</b>	(368)
<b>Total</b>	<b>1 963</b>	2 331	<b>1 044</b>	1 112
Details of interest rates payable on borrowings are shown in annexure 1.				
<b>Interest-bearing borrowings</b>				
Non-current borrowings	<b>1 963</b>	2 331	<b>1 044</b>	1 112
Short-term borrowings	<b>225</b>	52	<b>168</b>	
Current portion of non-current borrowings	<b>686</b>	784	<b>136</b>	368
Total short-term borrowings	<b>911</b>	836	<b>304</b>	368
<b>Total</b>	<b>2 874</b>	3 167	<b>1 348</b>	1 480
Included in the above interest-bearing borrowings are obligations relating to finance leases (note 13). Details are:				
Minimum lease payments:				
– Less than 1 year	<b>1</b>	15		
– More than 1 year and less than 5 years	<b>1</b>	1		
– More than 5 years				
– Total	<b>2</b>	16		
– Less: Future finance charges		1		
Present value of lease liabilities	<b>2</b>	15		
Representing lease liabilities:				
– Current	<b>1</b>	14		
– Non-current (more than 1 year and less than 5 years)	<b>1</b>	1		
– Non-current (more than 5 years)				
Total	<b>2</b>	15		
<b>25. OTHER LONG-TERM PAYABLES</b>				
Other long-term payables: Mittal Steel (South Africa) captive mines	<b>604</b>	607		
Other long-term payables		2		
	<b>604</b>	609		
Mittal Steel (South Africa) has funded the capital expenditure at the Thabazimbi and Tshikondeni captive mines in terms of supply agreements. The funds are repayable over the life of the mine as specified in the supply agreements.				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*  
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	Environmental rehabilitation Rm	Decommissioning Rm	Restructuring Rm	Total Rm
<b>26. PROVISIONS</b>				
Group				
For the year ended 31 December 2005				
At beginning of year	<b>611</b>		<b>8</b>	<b>619</b>
Reclassification of opening balance	<b>(81)</b>	<b>123</b>		<b>42</b>
Charge to income statement	<b>19</b>	<b>11</b>	<b>17</b>	<b>47</b>
Interest adjustment	<b>33</b>	<b>9</b>		<b>42</b>
Provisions capitalised to property, plant and equipment		<b>13</b>		<b>13</b>
Utilised during year	<b>(10)</b>		<b>(2)</b>	<b>(12)</b>
At end of year	<b>572</b>	<b>156</b>	<b>23</b>	<b>751</b>
Current portion included in current liabilities	<b>(18)</b>		<b>(6)</b>	<b>(24)</b>
Total non-current provisions	<b>554</b>	<b>156</b>	<b>17</b>	<b>727</b>
For the year ended 31 December 2004 – Restated				
At beginning of period as previously stated	362		21	383
Prior year adjustment (note 2)	151			151
Charge to income statement	55			55
Interest adjustment	69			69
Provisions capitalised to property, plant and equipment	(2)			(2)
Utilised during year	(21)		(13)	(34)
Exchange differences	(3)			(3)
At end of year	611		8	619
Current portion included in current liabilities	(12)		(8)	(20)
Total non-current provisions	599			599

	Environmental rehabilitation Rm	Decommissioning Rm	Restructuring Rm	Total Rm
<b>26. PROVISIONS (continued)</b>				
<b>Company</b>				
<b>For the year ended 31 December 2005</b>				
At beginning of year	<b>15</b>			<b>15</b>
Interest adjustment	<b>1</b>			<b>1</b>
<b>Total non-current provisions</b>	<b>16</b>			<b>16</b>
<b>For the year ended 31 December 2004</b>				
<b>– Restated</b>				
At beginning of year	5			5
Charge to income statement	3			3
Interest adjustment	7			7
<b>Total non-current provisions</b>	<b>15</b>			<b>15</b>

#### Environmental rehabilitation

Provision is made for environmental rehabilitation costs where either a legal or constructive obligation is recognised as a result of past events. Estimates are based upon costs that are regularly reviewed and adjusted as appropriate for new circumstances.

#### Decommissioning

During 2005 the environmental rehabilitation provision was reclassified into two separate provisions, namely the environmental rehabilitation provision and the decommissioning provision, the opening balance was adjusted to reflect the split. The decommissioning provision relates to decommissioning of property, plant and equipment where either a legal or constructive obligation is recognised as a result of past events. Estimates are based upon costs that are regularly reviewed and adjusted as appropriate for new circumstances.

#### Funding of environmental and decommissioning rehabilitation

Contributions towards the cost of the mine closure are also made to the Kumba Rehabilitation Trust Fund and the balance of the fund amounted to R265 million (2004: R190 million) at period end. This amount is included in the financial assets of the group. Cash flows will take place when the mines are rehabilitated.

#### Restructuring

The liability includes accruals for plant and facility closures, including the dismantling costs thereof, and employee termination costs, in terms of announced restructuring plans for the Durnacol mine. Provision is made on a piecemeal basis, only for those restructuring obligations supported by a formally approved plan. The restructuring will be completed within the next ten years.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*  
for the 12-months ended 31 December 2005

	GROUP		COMPANY	
	At 31 Dec 2005 Rm	Restated At 31 Dec 2004 Rm	At 31 Dec 2005 Rm	Restated At 31 Dec 2004 Rm
<b>27. DEFERRED TAXATION</b>				
The movement on the deferred taxation account is as follows:				
At beginning of period as previously stated	782	901	(21)	(20)
Effect of prior year adjustments		(195)		
Restated balance	782	706	(21)	(20)
Non-distributable reserve charge				
– current	(4)	56		
Income statement charge				
– current (note 9)	(110)	32		(1)
– prior	28	(12)		
– rate change	(29)			
At end of period	667	782	(21)	(21)
Comprising:				
Deferred taxation liabilities				
– Property, plant and equipment	1 011	1 158		
– Foreign taxation to be set-off for group tax entity		(102)		
– Foreign taxation losses carried forward	(5)	(26)		
– Inventories	13	20		
– Leave pay accrual	(36)	(41)		
– Provisions	(2)	(3)		
– Adjustment on foreign loan	40	41		
– Environmental rehabilitation asset	67	34		
– Decommissioning provision	(20)	(13)		
– Environmental rehabilitation provision	(60)	(42)		
– Prepayments	3	2		
– Unrealised profits		24		
– Assessed losses	(5)	(12)		
	1 006	1 040		
Deferred taxation assets				
– Provisions	(37)	(31)		
– Property, plant and equipment	281	186	(5)	(7)
– Environmental rehabilitation asset	3	5	3	2
– Decommissioning provision	(2)	(7)		
– Environmental rehabilitation provision	(24)	(19)	(4)	(4)
– Bad debt reassessment	(1)	(1)	(1)	(1)
– Leave pay accrual	(19)	(14)	(14)	(11)
– Prepayments	1	2	1	
– Taxation losses carried forward	(365)	(221)	(1)	
– Foreign taxation losses carried forward	(176)	(260)		
– Foreign taxation losses to be set-off for group tax entity		102		
	(339)	(258)	(21)	(21)
	667	782	(21)	(21)
<b>Calculated taxation losses:</b>				
– Tax losses utilised to reduce deferred taxation against South African taxable income included above	1 276	777	3	
– Tax losses utilised to reduce deferred taxation against foreign taxable income included above	599	899		

The total deferred taxation assets raised with regard to assessed losses amounts to R551 million (2004: R519 million), and is mainly attributable to the ramp-up phase of the heavy minerals project.

	GROUP		COMPANY	
	At 31 Dec 2005 Rm	Restated At 31 Dec 2004 Rm	At 31 Dec 2005 Rm	Restated At 31 Dec 2004 Rm
<b>28. TRADE AND OTHER PAYABLES</b>				
Trade payables	605	453	16	15
Other payables	494	378	90	149
Leave pay accrual	224	212	48	37
Derivative instruments	65	18	50	15
	<b>1 388</b>	<b>1 061</b>	<b>204</b>	<b>216</b>

	GROUP		COMPANY	
	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm
<b>29. NOTES TO THE CASH FLOW STATEMENT</b>				
<b>29.1 Cash retained from operations</b>				
Net operating income/(loss)	4 887	1 845	(107)	14
Adjusted for non-cash movements				
– Prior year adjustment		4		
– Depreciation	817	933	7	8
– Impairment charges	28	35	7	51
– Negative goodwill amortisation		(6)		
– Excess over cost of acquisition of minority interest	(95)			
– Provisions	47	55		3
– Foreign exchange revaluations and fair value adjustments	(56)	(19)	8	6
– Reconditionable spares usage	6	11		
– Net deficit on disposal or scrapping of property, plant and equipment	(4)	37	2	2
– Net surplus on disposal of investments	(1 179)	(72)		(84)
– Share-based payment expenses	38	30	22	16
<b>Cash generated by operations</b>	<b>4 489</b>	<b>2 853</b>	<b>(61)</b>	<b>16</b>
Working capital movements				
– (Increase) in inventories	(143)	(42)		
– (Increase)/decrease in trade and other receivables	(532)	(242)	85	(120)
– (Increase)/decrease in non-current financial assets	(157)	(23)	19	21
– Increase/(decrease) in trade and other payables	219	149	(7)	70
– Utilisation of provisions (note 26)	(12)	(34)		
	<b>3 864</b>	<b>2 661</b>	<b>36</b>	<b>(13)</b>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*  
for the 12-months ended 31 December 2005

	GROUP		COMPANY	
	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm
<b>29. NOTES TO THE CASH FLOW STATEMENT (continued)</b>				
<b>29.2 Income from equity accounted investments</b>				
Income from equity accounted investments as per income statement	7	(42)		
Less: Non-cash flow income from equity accounted investments	(7)	42		
<b>29.3 Net financing costs</b>				
Net financing costs as per income statement	(231)	(424)	(118)	(272)
Financing costs not involving cash flows (note 26)	42	69	1	7
	(189)	(355)	(117)	(265)
<b>29.4 Normal taxation paid</b>				
Amounts unpaid at beginning of year	(182)	(94)	(1)	(3)
Prior year adjustment		(8)		
Adjusted opening balance	(182)	(102)	(1)	(3)
Amounts charged to the income statements	(1 522)	(403)	(186)	(52)
Arising on translation of foreign entities	110	10		
Amounts unpaid at end of year	773	182	(29)	1
	(821)	(313)	(216)	(54)
<b>29.5 Dividends paid</b>				
Amounts unpaid at beginning of year				
Dividends declared and paid	(1 430)	(344)	(1 430)	(344)
Dividends declared and paid by subsidiaries to minorities	(17)	(17)		
Amounts unpaid at end of year				
	(1 447)	(361)	(1 430)	(344)
<b>29.6 Investments to maintain operations</b>				
Replacement of property, plant and equipment	(353)	(526)	(25)	(16)
Reconditional spares	(36)	(45)		
	(389)	(571)	(25)	(16)
<b>29.7 Investments to expand operations</b>				
Expansion and new technology	(655)	(825)		
	(655)	(825)		
<b>29.8 Investment in other non-current assets</b>				
Increase in associates, joint ventures and other investments	(3)	(93)		(20)
(Increase)/decrease in investments in subsidiaries	(1 174)	(3)	96	(139)
	(1 177)	(96)	96	(159)

	GROUP		COMPANY	
	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 31 Dec 2004 Rm
<b>29. NOTES TO THE CASH FLOW STATEMENT (continued)</b>				
<b>29.9 Foreign currency translation reserve</b>				
At beginning of year	(121)	169	118	120
Closing balance	(30)	(121)	1	118
Movement	91	(290)	(117)	(2)
Transfers from/(to) NDR	30	(4)		
Unrealised (losses)/profits in relation to foreign transactions	(30)	14	117	(2)
Revaluation of long-term loans	(82)	(217)	(1)	1
Less arising on translation of foreign entities:	(71)	(434)		1
– inventories	16	(41)		
– accounts receivable	71	(117)		
– financial assets	(5)	(15)		
– derivatives				
– accounts payable	(77)	101		
– utilisation of provisions		6		
– taxation paid	(21)	10		
– dividends paid	7	(1)		
– fixed assets acquired	67	(215)		
– intangible assets	4	(9)		
– proceeds from investments sold				
– investments acquired	(115)	(120)		
– long-term loans	(4)	(35)		1
– short-term loans	(9)	2		
– minority loans	(56)			
– share capital	51			
	80	(63)	(1)	(4)

### 30. FINANCIAL INSTRUMENTS

The centralised corporate treasury function (other than Tigor Pty Limited which operates on a decentralised basis, but within the approved group policies) provides services to all the businesses in the group, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the group's operations.

The group's objective in using financial instruments is to reduce the uncertainty over future cash flows arising from movements in currency, interest rates and base metal prices. Currency and interest rate exposure is managed within board-approved policies and guidelines, which restrict the use of derivatives to the hedging of specific underlying currency, interest rate and base metal price exposures. Compliance with group policies and exposure limits is reviewed by the internal auditors on a continuous basis and they report the results to the board audit committee.

#### 30.1 Foreign currency risk management

The group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts (FECs), currency options and currency swap agreements.

The group maintains a fully covered exchange rate position in respect of foreign currency borrowings and imported capital equipment resulting in these exposures being fully converted to rand. Trade-related import exposures are managed through the use of natural hedges arising from export revenue as well as through FECs. Trade-related export exposures are hedged using FECs and currency options with specific focus on short-term receivables.

In respect of a US\$60 million (2004: US\$105 million) loan liability of Tigor (Pty) Limited, a natural hedge exists between US\$ revenue and US\$ borrowings. Accordingly, future sales proceeds to be applied to the repayment of US\$ borrowings are recorded at the historical exchange rate effective at the date of loan draw down.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*  
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30. FINANCIAL INSTRUMENTS (continued)

30.1 Foreign currency risk management (continued)

Material FECs and currency options, which relate to specific balance sheet items, that do not form part of a hedging relationship or for which hedge accounting was not applied at 31 December 2005 and 31 December 2004, are summarised as follows:

	Foreign amount million	Market related value Rm	Contract value Rm	Recognised fair value gains/ (losses) Rm
<b>Foreign currency</b>				
<b>2005</b>				
<i>Exports</i>				
United States dollar – FECs	40	256	267	10
United States dollar – Put options	1	6	7	
United States dollar – Call options	1	7	7	
<i>Loans</i>				
United States dollar <sup>1</sup>	100	633	681	(49)
<b>Foreign currency</b>				
<b>2004</b>				
<i>Exports</i>				
United States dollar – FECs	37	209	255	46
Attributable to minorities				(18)
<i>Loans</i>				
United States dollar <sup>1</sup>	100	566	681	(115)
<i>Imports</i>				
United States dollar – FECs	1	3	3	
Euro – FECs	1	9	9	
Australian dollars – FECs	1	6	7	(1)

1. Kumba entered into a syndicated loan of US\$150 million, of which US\$100 million was drawn down at 31 December 2005 (2004: US\$100 million). The fair value profit of R49 million (2004: R115 million) of the liability has been accounted for in foreign exchange profits. The amount drawn down has been hedged by entering into a cross currency swap. The fair value of the cross currency swap is included in the table above.

The group has entered into certain forward exchange contracts, which relate to specific foreign commitments not yet due and export earnings for which the proceeds are not yet receivable. Details of the contracts at 31 December 2005 and 31 December 2004, are as follows:

	Foreign amount million	Market related value Rm	Contract value Rm	Recognised fair value in equity Rm
<b>Foreign currency</b>				
<b>2005</b>				
<i>Exports<sup>1</sup></i>				
<i>Imports</i>				
United States dollar – FECs	2	13	14	(1)
Euro – FECs	10	79	84	(5)
Japanese yen – FECs	514	27	30	(3)
Attributable to minorities				(7)

Note: Unrealised exchange gains or losses amounting to R11,5 million (31 December 2004: R41 million) arising from the revaluation of Tigor Pty Limited's foreign currency loans which are a natural hedge against specific future export sales revenue, are recognised in equity as hedge accounting has been applied.

	Foreign amount million	Market related value Rm	Contract value Rm	Recognised fair value in equity Rm
<b>30. FINANCIAL INSTRUMENTS (continued)</b>				
<b>30.1 Foreign currency risk management (continued)</b>				
Foreign currency				
2004				
<i>Exports<sup>1</sup></i>				
United States dollar – FECs	8	43	48	5
United States dollar – Put options	7	40	50	10
United States dollar – Call options	7	40	50	10
Attributable to minorities				(12)
Taxation on items charged directly to equity				(7)
<i>Imports</i>				
United States dollar – FECs	3	18	20	(2)
Euro – FECs		3	3	

1. Recognised fair value in equity to be released to income statement within six months.

Uncovered debtors at 31 December 2005 amount to US\$171 million (2004: US\$62 million). All capital imports were fully hedged. Imports (other than capital imports) not fully hedged amount to US\$2 million (2004: US\$1,5 million) and A\$3 million (2004: A\$nil). Monetary items have been translated at the closing rate at the last day of the reporting period US\$1:R6,325 (2004: US\$1:R5,6525).

### 30.2 Price hedging

Prices for future purchases and sales of goods and services are generally established on normal commercial terms through agents or direct with suppliers and customers. Price hedging is undertaken on a limited scale for future zinc sales at Rosh Pinah Zinc Corporation (Pty) Limited and Kumba Base Metals Limited to secure operating margins and reduce cash flow volatility. The forward hedged position at balance sheet date is shown below:

	Tonnes	Market related value Rm	Contract value Rm	Recognised losses Rm
<b>2005</b>				
Recognised transactions	<b>4 600</b>	<b>55</b>	<b>49</b>	<b>(6)</b>
		Market related value	Contract value	Recognised gains/ (losses)
	Tonnes	Rm	Rm	Rm
<b>2004</b>				
Recognised transactions	1 335	9	9	

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued* for the 12-months ended 31 December 2005

### 30. FINANCIAL INSTRUMENTS (continued)

#### 30.3 Interest rate risk management

The group is exposed to interest rate risk as it borrows and deposits funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings taking into account future interest rate expectations.

A proportion of term borrowings was entered into at floating interest rates in anticipation of a decrease in the interest rate cycle.

The interest rate repricing profile is summarised below:

	1 – 6 months Rm	7 – 12 months Rm	Beyond 1 year Rm	Total borrowings Rm
<b>At 31 Dec 2005</b>				
Term borrowings	<b>1 349</b>		<b>1 300</b>	<b>2 649</b>
Call borrowings	<b>225</b>			<b>225</b>
% of total borrowings	<b>55</b>		<b>45</b>	<b>100</b>
<b>At 31 Dec 2004</b>				
Term borrowings	815		2 300	3 115
Call borrowings	52			52
% of total borrowings	27		73	100

The group makes use of interest rate derivatives to hedge specific exposures in the interest rate repricing profile of existing borrowings. The value of borrowings hedged by interest rate derivatives, the instruments used and the respective rates applicable to these contracts were as follows:

	Borrowings hedged Rm	Floating interest payable %	Floating interest receivable %	Fixed interest payable %	Fixed interest receivable %	Recognised fair value gain/(loss) Rm
<b>At 31 Dec 2005</b>						
<i>Local</i>						
Interest rate derivatives up to 1 year:						
– Interest rate swaps	41		3m Jibar + 1,625% margin	10,43		(0,40)
Interest rate derivatives beyond 1 year:						
– Interest rate swaps	85	3m Jibar + 3,06% margin			12,41	2,60
<i>Foreign</i>						
Interest rate derivatives beyond 1 year:						
– Cross currency swaps	\$30m	3m Jibar + 0,95% margin	3m Libor + 0,7% margin			(12,60)
	\$20m	3m Jibar + 0,91% margin	3m Libor + 0,7% margin			(8,30)
	\$15m	3m Jibar + 0,90% margin	3m Libor + 0,7% margin			(8,20)
	\$15m	3m Jibar + 0,90% margin	3m Libor + 0,7% margin			(8,20)
	\$10m	3m Jibar + 0,88% margin	3m Libor + 0,7% margin			(5,40)
	\$10m	3m Jibar + 0,89% margin	3m Libor + 0,7% margin			(5,40)

30. FINANCIAL INSTRUMENTS (continued)  
 30.3 Interest rate risk management (continued)

	Borrowings hedged Rm	Floating interest payable %	Floating interest receivable %	Fixed interest payable %	Fixed interest receivable %	Recognised fair value gain/(loss) Rm
<b>At 31 Dec 2004</b>						
<i>Local</i>						
Interest rate derivatives up to 1 year:						
- Interest rate swaps	200	3m Jibar + 1% margin			13,00	9,20
	100		3m Jibar + 1% margin	10,00		(1,80)
	100		3m Jibar + 1% margin	10,00		(1,90)
	113		3m Jibar + 3,06% margin	12,10		(1,80)
Interest rate derivatives beyond 1 year:						
- Interest rate swaps	113	3m Jibar + 3,06% margin			12,41	4,20
	125	3m Jibar + 1,625% margin		10,43		(2,00)
<i>Foreign</i>						
Interest rate derivatives beyond 1 year:						
- Cross currency swaps	\$30m	3m Jibar + 0,95% margin	3m Libor + 0,7% margin			(32,80)
	\$20m	3m Jibar + 0,91% margin	3m Libor + 0,7% margin			(21,80)
	\$15m	3m Jibar + 0,90% margin	3m Libor + 0,7% margin			(18,30)
	\$15m	3m Jibar + 0,90% margin	3m Libor + 0,7% margin			(18,30)
	\$10m	3m Jibar + 0,88% margin	3m Libor + 0,7% margin			(12,10)
	\$10m	3m Jibar + 0,89% margin	3m Libor + 0,7% margin			(12,10)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*  
for the 12-months ended 31 December 2005

30. FINANCIAL INSTRUMENTS (continued)

30.4 Maturity profile of financial instruments

The maturity profiles of financial assets and liabilities at 31 December 2005 and 31 December 2004 are summarised as follows:

(The derivative instruments reflect the contract amounts)

	0 – 12 months Rm	1 – 2 years Rm	3 – 5 years Rm	> 5 years Rm	Total Rm
<b>At 31 December 2005</b>					
<b>Assets</b>					
Financial assets		<b>32</b>	<b>65</b>	<b>295</b>	<b>392</b>
Cash and cash equivalents	<b>1 483</b>				<b>1 483</b>
Trade and other receivables	<b>2 066</b>				<b>2 066</b>
<b>Liabilities</b>					
Interest-bearing borrowings	<b>911</b>	<b>932</b>	<b>975</b>	<b>56</b>	<b>2 874</b>
Trade and other payables	<b>1 388</b>				<b>1 388</b>
	<b>1 250</b>	<b>(900)</b>	<b>(910)</b>	<b>239</b>	<b>(321)</b>
Percentage profile (%)	<b>(389)</b>	<b>280</b>	<b>283</b>	<b>(74)</b>	<b>100</b>
<b>At 31 December 2004</b>					
<b>Assets</b>					
Financial assets		39	61	186	286
Cash and cash equivalents	1 297				1 297
Trade and other receivables	1 365				1 365
<b>Liabilities</b>					
Interest-bearing borrowings	836	556	1 099	676	3 167
Trade and other payables	1 061				1 061
	765	(517)	(1 038)	(490)	(1 280)
Percentage profile (%)	(59)	40	81	38	100
<b>Derivative instruments at 31 December 2005</b> (included in the above)					
Recognised transactions					
– Buy			<b>681</b>		<b>681</b>
– Sell	<b>329</b>				<b>329</b>
Forecast transactions					
– Buy	<b>129</b>				<b>129</b>
<b>Derivative instruments at 31 December 2004</b> (included in the above)					
Recognised transactions					
– Buy	19		681		700
– Sell	255				255
Forecast transactions					
– Buy	23				23
– Sell	147				147

**30. FINANCIAL INSTRUMENTS (continued)**
**30.5 Fair value of financial instruments**

At 31 December 2005 the carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate their fair values due to the short-term maturities of these assets and liabilities.

	Carrying value		Fair value	
	2005 Rm	2004 Rm	2005 Rm	2004 Rm
<b>Assets</b>				
Financial assets	392	286	392	286
Cash and cash equivalents	1 483	1 297	1 483	1 297
Trade and other receivables	2 066	1 365	2 066	1 365
<b>Liabilities</b>				
Non-current interest-bearing borrowings	1 963	2 331	1 880	2 158
Current interest-bearing borrowings	911	836	1 027	987
Trade and other payables	1 388	1 061	1 388	1 061

**Liabilities**

The fair value of long and medium-term borrowings is calculated using quoted prices, or where such prices are not available, discounted cash flow analyses using the applicable yield curve for the duration of the borrowing.

**Derivative instruments**

Comprise forward exchange contracts, currency options, interest rate collars and swaps as well as zinc forward contracts. The fair value of derivative instruments, included in hedging assets and liabilities are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analyses using the applicable yield curve for the duration of the instruments.

	31 Dec 2005 Rm	31 Dec 2004 Rm
At 31 December 2005, the negative R52 million (2004: R41 million) fair value of instruments is made up of:		
– Favourable contracts	11	84
– Unfavourable contracts	63	125

When an anticipated future transaction has been hedged and the underlying position has not been recognised in the financial statements, any change in fair value of the hedging instrument is recognised directly in equity.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*  
for the 12-months ended 31 December 2005

30. FINANCIAL INSTRUMENTS (continued)

30.6 Credit risk management

Credit risk relates to potential exposure on cash and cash equivalents, investments, trade receivables and hedged positions. The group limits its counterparty exposure arising from money market and derivative instruments by only dealing with well-established financial institutions of high credit standing. The group exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the board annually.

Trade debtors consist of a number of customers, with whom Kumba has long-standing relationships. A high portion of term supply arrangements exist with such clients resulting in limited credit exposure which exposure, where dictated by customer credit worthiness or country risk assessment, is further mitigated through a combination of confirmed letters of credit and credit risk insurance.

	2005 %	2004 %
<i>Detail of the credit risk exposure above 5%</i>		
<i>By industry</i>		
Manufacturing (including structural metal)	95	91
Public utilities	5	7
Other		2
	<b>100</b>	100
<i>By geographical area</i>		
South Africa	28	30
Asia	32	22
Europe	21	20
Australia		1
USA	17	23
Other	2	4
	<b>100</b>	100

30.7 Liquidity risk management

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

	2005 Rm	2004 Rm
Borrowing capacity is determined by the directors in terms of the articles of association, from time to time:		
Amount approved	7 377	5 289
Total borrowings	2 874	3 167
Unutilised borrowing capacity	<b>4 503</b>	2 122

In line with the reduction in debt and the strengthening of the group's capital base, the borrowing powers of the company and the group were set at 100% of shareholders' funds for the 2005 financial period (2004: 100%).

### 31. RELATED PARTY TRANSACTIONS

During the year the company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase transactions with associates and joint ventures. These transactions occurred under terms that are no less favourable than those arranged with third parties.

#### Associates and joint ventures

Details of investments in associates and joint ventures are disclosed in note 17 and annexure 2 whilst income is disclosed in note 17. Interest income from joint ventures of R3 million (2004: R6 million) is included in net financing costs (note 6).

The group purchased goods and services to the value of R9 million (2004: R133 million) from, and sold goods to the value of Rnil (2004: Rnil) to associates and joint ventures.

The outstanding balances at year end are as follows:

- Included in trade and other receivables (note 21) R4 million (2004: R20 million)
- Included in trade and other payables (note 28) Rnil (2004: R6 million)
- Included in cash and cash equivalents R64 million (2004: R39 million)
- Included in the carrying value of associates and joint ventures (note 17) are long-term loans of R2 million (2004: R1 million)
- Included in long-term debtors Rnil (2004: Rnil) (note 19)
- Included in financial assets Rnil (2004: R21 million) (note 19)

#### Subsidiaries

Details of income from, and investments in subsidiaries are disclosed in notes 7 and 18 respectively, and annexure 3.

#### Corporate service fee from subsidiaries

The following corporate service fees were received by Kumba Resources Limited for essential services rendered:

	12-months ended 31 Dec 2005 Rm	Restated 18-months ended 30 June 2004 Rm
Sishen Iron Ore Company (Pty) Limited	170	236
Kumba Coal (Pty) Limited	55	115
Kumba Base Metals Limited	19	
	<b>244</b>	<b>351</b>

#### Completion guarantees

Kumba Resources Limited provides completion guarantees on behalf of Ticor South Africa (Pty) Limited and Ticor South Africa KZN (Pty) Limited to an amount of R869 million.

On consolidation the guarantees are eliminated as the liabilities of Ticor South Africa (Pty) Limited and Ticor South Africa KZN (Pty) Limited are consolidated onto the group balance sheet.

#### Special purpose entities

The group has an interest in the following special purpose entities which are consolidated unless otherwise indicated:

Entity	Nature of business
Ferrosure (Isle of Man) Insurance Company Limited <sup>1</sup>	Offshore insurance captive
Ferrosure (South Africa) Insurance Company Limited	Insurance captive
Kumba Environmental Rehabilitation Fund	Trust fund for mine closure
Merrill Lynch Isle of Man PCC Limited	Offshore insurance captive
Minco Leasing Limited	Financing company
Oreco Leasing Limited	Financing company
Vulcan Leasing Limited	Financing company
Kumba Resources Management Share Trust	Management share incentive trust

1. Novated to Merrill Lynch Isle of Man PCC Limited on 1 July 2005.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued* for the 12-months ended 31 December 2005

### 31. RELATED PARTY TRANSACTIONS (continued)

#### Directors

Details relating to directors' emoluments and shareholdings (including options) in the company are disclosed in the report of the directors.

#### Senior employees

Details relating to option and share transactions are disclosed in note 33.

#### Key management personnel

For Kumba Resources Limited other than the executive and non-executive directors, no other key management personnel were identified. Refer to p125 for details on directors' remuneration. For the group, the directors of the major subsidiaries have been identified as being key management personnel. The major subsidiaries are considered to be the following:

Sishen Iron Ore Company (Pty) Limited  
Kumba Coal (Pty) Limited  
Ticor South Africa (Pty) Limited  
Ticor South Africa KZN (Pty) Limited  
Ticor Pty Limited  
Kumba Base Metals Limited  
Kumba International BV

	<b>12-months ended 31 Dec 2005 Rm</b>	18-months ended 30 June 2004 Rm
Short-term employee benefits	<b>36</b>	50
Post-employment pension/provident and medical benefits		
Termination benefits	<b>1</b>	5
Share-based payments – related expense	<b>5</b>	4
<b>Total compensation paid to key management personnel</b>	<b>42</b>	59

#### Anglo group

Kumba's majority shareholder and parent is Anglo American Capital Limited, with the ultimate controlling party being Anglo American plc.

The Kumba Resources group purchased goods and services to the value of R190 million (2004: R170 million) from, and sold goods to the value of R152 million (2004: R157 million) to fellow subsidiaries of the Anglo group.

The outstanding balances at year-end are as follows:

- Included in trade and other receivables (note 21) R14 million (2004: R39 million).
- Included in trade and other payables (note 28) R29 million (2004: Rnil).
- Doubtful debts of R4 million (2004: R2 million) have been provided for.
- Expense recognised for bad or doubtful debts of R1 million (2004: Rnil).

#### Shareholders

The principal shareholders of the company are detailed in the "Shareholders' Analysis" schedule on p70 of the annual report.

#### Contingent liabilities

Details are disclosed in note 34.

### 32. SEGMENT REPORTING

	Iron ore		Coal		Heavy minerals		Base metals		Industrial minerals		Other		Total	
	2005 Rm	Re- stated 2004 Rm	2005 Rm	Re- stated 2004 Rm	2005 Rm	Re- stated 2004 Rm	2005 Rm	Re- stated 2004 Rm	2005 Rm	Re- stated 2004 Rm	2005 Rm	Re- stated 2004 Rm	2005 Rm	Re- stated 2004 Rm
<b>Business segmentation</b>														
<i>Segment revenue</i>														
– Total turnover	<b>6 638</b>	6 065	<b>2 203</b>	2 733	<b>1 927</b>	2 438	<b>1 070</b>	1 212	<b>137</b>	177	<b>30</b>	32	<b>12 005</b>	12 657
– Inter-group									<b>(30)</b>	(39)	<b>(13)</b>	(18)	<b>(43)</b>	(57)
External	<b>6 638</b>	6 065	<b>2 203</b>	2 733	<b>1 927</b>	2 438	<b>1 070</b>	1 212	<b>107</b>	138	<b>17</b>	14	<b>11 962</b>	12 600
<i>Segment net operating profit/(loss)</i>	<b>2 767</b>	1 134	<b>554</b>	544	<b>227</b>	203	<b>69</b>	(153)	<b>26</b>	27	<b>1 244</b>	90	<b>4 887</b>	1 845
<i>Depreciation and amortisation of intangible assets</i>	<b>364</b>	386	<b>166</b>	224	<b>304</b>	279	<b>50</b>	68	<b>6</b>	9	<b>8</b>	11	<b>898</b>	977
<i>Cash flow related depreciation</i>	<b>(65)</b>	(28)	<b>(16)</b>	(16)									<b>(81)</b>	(44)
<i>Impairment charge and reversals</i>			<b>1</b>	(1)	<b>22</b>	89	<b>(2)</b>	35			<b>7</b>	(88)	<b>28</b>	35
<i>Negative goodwill amortisation</i>						(6)								(6)
<i>Excess over cost of acquisition of minority interest</i>											<b>(95)</b>		<b>(95)</b>	
<i>Net surplus on disposal of investments</i>						1					<b>(1 179)</b>	(73)	<b>(1 179)</b>	(72)
<i>Other non-cash flow items not disclosed above</i>	<b>33</b>	9	<b>14</b>	(4)	<b>(36)</b>	(1)	<b>7</b>	39	<b>2</b>	2	<b>11</b>	73	<b>31</b>	118
<i>Cash generated by operations</i>	<b>3 099</b>	1 501	<b>719</b>	747	<b>517</b>	565	<b>124</b>	(11)	<b>34</b>	38	<b>(4)</b>	13	<b>4 489</b>	2 853
<i>Cash inflow from operations</i>	<b>2 594</b>	1 545	<b>752</b>	682	<b>375</b>	397	<b>(11)</b>	23	<b>34</b>	38	<b>120</b>	(24)	<b>3 864</b>	2 661
<i>Income/(loss) from equity accounted investments</i>							<b>12</b>	9			<b>(5)</b>	(51)	<b>7</b>	(42)
<i>Capital expenditure</i>														
– cash flow	<b>404</b>	270	<b>347</b>	216	<b>190</b>	801	<b>71</b>	83	<b>7</b>	7	<b>25</b>	19	<b>1 044</b>	1 396
– non-cash flow	<b>77</b>	198	<b>30</b>	56				4					<b>107</b>	258
	<b>481</b>	468	<b>377</b>	272	<b>190</b>	801	<b>71</b>	87	<b>7</b>	7	<b>25</b>	19	<b>1 151</b>	1 654
<i>Segment assets and liabilities</i>														
– Assets per balance sheet	<b>5 835</b>	4 536	<b>1 602</b>	1 684	<b>2 562</b>	4 303	<b>195</b>	87	<b>93</b>	97	<b>4 400</b>	2 372	<b>14 687</b>	13 079
– Investments in associates and joint ventures	<b>1</b>		<b>1</b>				<b>93</b>	72				13	<b>95</b>	85
– Liabilities per balance sheet	<b>2 287</b>	1 603	<b>1 088</b>	850	<b>1 975</b>	2 042	<b>370</b>	308	<b>29</b>	31	<b>1 647</b>	1 844	<b>7 396</b>	6 678
<i>Number of employees (number)</i>	<b>4 308</b>	4 199	<b>2 589</b>	2 716	<b>968</b>	794	<b>1 300</b>	1 092	<b>147</b>	169	<b>785</b>	721	<b>10 097</b>	9 691

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*  
for the 12-months ended 31 December 2005

	<b>Segment revenue</b>	Segment revenue	<b>Carrying amount of segment assets</b>	Carrying amount of segment assets	<b>Additions to property, plant and equipment (non-cash flow)</b>	Additions to property, plant and equipment (non-cash flow)	<b>Additions to property, plant and equipment (cash flow)</b>	Additions to property, plant and equipment (cash flow)
	<b>2005 Rm</b>	Restated 2004 Rm	<b>2005 Rm</b>	Restated 2004 Rm	<b>2005 Rm</b>	Restated 2004 Rm	<b>2005 Rm</b>	Restated 2004 Rm
<b>32. SEGMENT REPORTING (continued)</b>								
<b>Geographical segmentation</b>								
– South Africa	<b>4 074</b>	5 055	<b>(2 199)</b>	9 925	<b>30</b>	254	<b>672</b>	1 260
– Africa	<b>4</b>	35	<b>10 777</b>	107	<b>77</b>	4	<b>305</b>	
– Europe	<b>2 269</b>	6 072	<b>4 370</b>	1 253				38
– Asia	<b>4 207</b>	3 774	<b>387</b>	959				
– Australia	<b>14</b>	1 158	<b>1 455</b>	1 306			<b>67</b>	93
– Other	<b>1 394</b>	(3 494)	<b>(8)</b>	(386)				5
Total segment	<b>11 962</b>	12 600	<b>14 782</b>	13 164	<b>107</b>	258	<b>1 044</b>	1 396

Total segment revenue, which excludes value-added tax and sales between group companies, represents the gross value of goods invoiced. Export revenue are recorded according to the relevant sales terms, when the risks and rewards of ownership are transferred.

Total segment revenue further includes operating revenues directly and reasonably allocable to the segments. Segment revenue includes sales made between segments. These sales are made on a commercial basis.

Segment net operating profit equals segment revenue less segment expenses and includes impairment charges and goodwill amortisation. Segment expenses represent direct or reasonably allocable operating expenses on a segment basis. Segment expenses exclude interest, losses on investments and income tax expenses, but include corporate costs.

Segment assets and liabilities include directly and reasonably allocable operating assets, investments in associates and joint ventures and liabilities.

### 33. EMPLOYEE BENEFITS

#### Retirement funds

Independent funds provide retirement and other benefits for all permanent employees, retired employees, and their dependants. At the end of the financial year, the main funds to which Kumba was a participating employer, are as follows:

- Kumba Selector Pension Fund and Kumba Selector Provident Fund, both operating as defined contribution funds.
- Iscor Employees' Provident Fund, operating as a defined contribution fund.
- Iscor Pension Fund, operating as a defined benefit fund. This fund is closed to new entrants.
- Iscor Retirement Fund, operating as a defined benefit fund. This fund is closed to new entrants.

In compliance with the Pension Fund Act after the unbundling from Ispat Iscor Limited in 2001, Kumba employees were transferred from the Iscor Selector Pension Fund and Iscor Selector Provident Fund to the Kumba Selector Pension Fund and Kumba Selector Provident Fund during the period under review.

Members pay a contribution of 7%, with the employer's contribution of 10% to the above funds, being expensed as incurred.

All funds are governed by the South African Pension Funds Act of 1956.

#### Defined contribution funds

Membership of each fund at 31 December 2005 and 31 December 2004 and employer contributions to each fund were as follows:

	<b>Working members 2005 Number</b>	Working members 2004 Number	<b>Employer contri- butions 2005 Rm</b>	Employer contri- butions 2004* Rm
Kumba Selector Funds	<b>3 230</b>	3 407	<b>58</b>	87
Iscor Employees' Provident Fund	<b>5 574</b>	5 097	<b>35</b>	42
Other funds	<b>878</b>	821	<b>23</b>	28
	<b>9 682</b>	9 325	<b>116</b>	157

\* 18-month period.

Due to the nature of these funds the accrued liabilities by definition equates to the total assets under control of these funds.

#### Defined benefit funds

Statutory actuarial valuations are performed at intervals of not more than three years. The valuations are performed at the financial year end of the funds in question which is 31 December. At the last statutory valuation of the funds (Iscor Pension Fund at 31 December 2004 and the Iscor Retirement Fund at 31 December 2002) the actuaries were of the opinion that the funds were adequately funded. The statutory valuation of the Iscor Retirement Fund at 31 December 2003 remains subject to the finalisation of the legislation relating to the surplus apportionment.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*  
for the 12-months ended 31 December 2005

33. EMPLOYEE BENEFITS (continued)

Funded status

The funded status of the two defined retirement benefit funds (Iscor Pension Fund at 31 December 2004 and Iscor Retirement Fund at 31 December 2002) for members and pensioners of Mittal Steel SA, and pensioners of Kumba, was as follows:

	Iscor Pension Fund 2004 Rm	Iscor Retirement Fund 2002 Rm
Fair value of plan assets	6 213	321
Present value of funded obligation	(6 213)	(281)
Net asset		40
Surplus not recognised		(40)
Unrecognised actuarial losses		
Net liability as per balance sheet		

The pension plan assets consist primarily of equity (local and offshore), interest-bearing stock and property.

The actual return on the assets in the Iscor Pension Fund at 31 December 2004 amounted to R1 339 million (2003: R523 million) and in the Iscor Retirement Fund to R47 million (2003: R32 million).

Principal actuarial assumptions (expressed as weighted averages) at 31 December 2004 were as follows:

	Iscor Pension Fund		Iscor Retirement Fund	
	Statutory valuation 2004 %	Interim valuation 2003 %	Statutory valuation 2002 %	Interim valuation 2001 %
Pre-retirement discount rate	10,0	10,0	10,0	10,0
Post-retirement discount rate	5,0	5,0	4,5	4,5
Expected real after tax return on fund's assets	3,5	2,5	N/A <sup>2</sup>	N/A <sup>2</sup>
Future general and merit salary increases	8,5 <sup>1</sup>	7,5 <sup>1</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>

Future pension increases were allowed to the extent that the investment return exceeds the post-retirement discount rate.

1. Excluding merit increases according to age.
2. Not applicable

Medical funds

The group and company contribute to defined benefit medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R62 million (2004: R84 million for the 18-month period to 31 December 2004). Kumba has no post-retirement medical aid obligation for current or retired employees.

### 33. EMPLOYEE BENEFITS (continued)

#### Equity compensation benefits

Kumba operates the Kumba Management Deferred Purchase Share Scheme and the Kumba Management Share Option Scheme for senior employees and executive directors of Kumba.

The Kumba Management Deferred Purchase Share Scheme consists of a combination of an option scheme, a purchase scheme and a deferred purchase scheme and governs to maturity the share scheme rights and obligations of employees which were in existence at the time of transfer of the employees from Iscor to Kumba on unbundling of Kumba effective July 2001.

The Kumba Management Share Option Scheme consists of the granting of options in respect of ordinary Kumba shares, at market value, to eligible participants.

The aggregate number of shares in the issued share capital of Kumba which may at any time be purchased by or allocated and issued to the trustees of both the Kumba Management Deferred Purchase Share Scheme, the Kumba Management Share Option Scheme, Long-term Incentive Plan and Deferred Bonus Plan may not exceed 10% in total of the ordinary shares then in issue in the share capital of Kumba.

The maximum number of Kumba shares to which any one eligible participant is entitled in total in respect of all schemes albeit by way of an allotment and issue of Kumba shares and/or the grant of options shall not exceed 1% of the shares then in issue in the share capital of Kumba.

Shares and/or options held in terms of Kumba Management Deferred Purchase Share Scheme are released in five equal tranches commencing on the second anniversary of an offer date and expire on the ninth anniversary of an offer date.

Options granted in terms of the Kumba Management Share Option Scheme can be exercised over five years commencing on the first anniversary of the offer date. If the options are accepted by participants, the vesting periods, unless decided otherwise by the directors, are as follows:

10% after 1st anniversary of offer date

– Additional 20% after 2nd anniversary of offer date

– Additional 20% after 3rd anniversary of offer date

– Additional 25% after 4th anniversary of offer date

– Additional 25% after 5th anniversary of offer date

The options not exercised lapse by the seventh anniversary of the offer date.

According to the rules of the Long-term Incentive Plan (“LTIP”), executive directors and employees of Kumba Resources and its subsidiaries are awarded rights to a number of ordinary Kumba shares. The vesting of LTIP awards are conditional upon the achievement of group performance levels (established by the remuneration committee) over a performance period of three years. The extent to which the performance conditions is met governs the number of shares that vest. The performance conditions set for the initial grant were as follows:

– The total shareholder return (“TSR”) condition: the Kumba TSR will be compared to the TSR of a peer group over the three year performance period, averaged over a six month period. The peer group comprises of at least 16 members.

– The return on capital employed (“ROCE”) condition: the ROCE measure is a return on capital employed measure with a number of adjustments. Targets are set by the remuneration committee based on existing ROCE performance in the base year of an LTIP and planned ROCE performance in the final year of the LTIP performance period.

Kumba, at its selection, settles the conditional awards by issuing new shares or by instructing any third party to acquire and deliver the shares to the participants.

According to the Deferred Bonus Plan (“DBP”) rules, executive directors and employees of Kumba and its subsidiaries have the opportunity to acquire shares (“pledged shares”) on the open market with 50% of the after tax component of their annual bonus. After the pledged shares have been acquired, the shares are held by an Escrow agent for the absolute benefit of the participant for a pledge period of three years. A participant may at its election dispose of and withdraw the pledged shares from Escrow at any stage. However, if the pledged shares are withdrawn from Escrow, before the expiry of the pledge period, the participant forfeits the matching award. The participant will qualify for a matching award at the end of the pledge period on condition that the participant is still employed and the pledged shares are still in Escrow. The matching award entitles a participant to a number of shares equal in value to the pledged shares. Upon vesting, the pledged shares and the matching award are transferred and released to the participant and rank pari passu in all respects with the existing issued shares of Kumba.

The company may settle the matching award by issuing new shares or alternatively, instruct any third party to acquire and deliver the shares to the participant.

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for the 12-months ended 31 December 2005

33. EMPLOYEE BENEFITS (continued)

Equity compensation benefits (continued)

A total of 30,6 million shares of the company, representing 10% of the issued shares, has been approved and allocated by shareholders for purposes of the schemes. Of the total of 30,6 million shares, 16,4 million shares are available in the share scheme for future offers to participants, while 14,2 million shares (5% of the issued shares) are allocated as options, long-term incentive plan, deferred bonus payment or deferred purchase shares to participants. Details are as follows:

	Million
Number of shares available for utilisation in terms of the Kumba Management Share Schemes at 1 January 2005	13,6
Add: Net effect of scheme shares released, forfeitures and adjustments to scheme allocation	5,7
Less: Share offers accepted	(2,9)
Number of shares available for future utilisation, at 31 December 2005	16,4

At 31 December 2005 the company's loan to the Kumba Management Share Trust amounted to R50 130 578 (2004: R16 939 844). The loan is interest free and has no fixed repayment terms. This amount is reflected as an inter-company loan in the company's accounts and eliminated at group level.

The market value of the shares available for utilisation at the end of the year amounted to R1 670 565 282 (2004: R596 784 276).

Details of the option/purchase schemes are:

	Options		Long-term incentive plan <sup>1</sup>	
	Dec 2005 Million	Dec 2004 Million	Dec 2005 Million	Dec 2004 Million
Outstanding at beginning of year	16,3	18,6		
Issued	2,6	3,9	0,2	
Exercised	(4,7)	(5,3)		
Lapsed/cancelled	(0,3)	(0,9)		
Outstanding at end of period	13,9	16,3	0,2	
	Deferred bonus plan		Deferred purchase	
	Dec 2005 Million	Dec 2004 Million	Dec 2005 Million	Dec 2004 Million
Outstanding at beginning of period			0,3	1,9
Issued				
Conversion to deferred purchase scheme				
Exercised			(0,2)	(1,6)
Lapsed/cancelled				
Outstanding at end of period			0,1	0,3

1. There is no amount payable by participants on vesting. They will be awarded rights to ordinary shares in the company.

33. **EMPLOYEE BENEFITS (continued)**  
 Equity compensation benefits (continued)

	Options		Long-term incentive plan	
	Dec 2005	Dec 2004	Dec 2005	Dec 2004
Details of issues during the period are as follows:				
Expiry date	2010/2012	2009/2011	2010/2012	
Exercise price (Share price range) (R)	39,25 – 98,50	24,50 – 42,40	62,74	
Total proceeds if options are immediately exercised/deferred purchase shares immediately paid (R million)	179	158	14	

	Deferred bonus plan		Deferred purchase	
	Dec 2005	Dec 2004	Dec 2005	Dec 2004
Expiry date	2010/2012			
Exercise price (Share price range) (R)	82,00 – 97,40			
Total proceeds if options are immediately exercised/deferred purchase shares immediately paid (R million)	0,04			

Details of options/deferred purchase shares exercised during the period are as follows:

	Options		Long-term incentive plan	
	Dec 2005	Dec 2004	Dec 2005	Dec 2004
Exercise price per share (Share price range) (R)	67,00 – 110,00	31,88 – 44,75		
Total proceeds if shares are issued (R million)	363	204		

	Deferred bonus plan		Deferred purchase	
	Dec 2005	Dec 2004	Dec 2005	Dec 2004
Exercise price per share (Share price range) (R)			67,00 – 110,00	31,88 – 44,75
Total proceeds if shares are issued (R million)			10	61

NOTES TO THE ANNUAL FINANCIAL STATEMENTS *continued*  
for the 12-months ended 31 December 2005

33. EMPLOYEE BENEFITS (continued)  
Equity compensation benefits (continued)

Terms of the options and deferred purchase shares outstanding at 31 December 2005 are as follows:

Expiry date	Options		Long-term incentive plan	
	Exercise price R	Outstanding '000	Exercise price R	Outstanding '000
2006				
2007	11,75 – 13,10	38		
2008	17,07 – 28,05	5 339		
2009	11,71 – 51,50	2 282		
2010	13,66 – 37,51	725		
2011	36,75 – 47,25	3 036		
2012	44,00 – 98,50	2 503		
Total		13 923		216

Expiry date	Deferred bonus plan		Deferred purchase	
	Exercise price R	Outstanding '000	Exercise price R	Outstanding '000
2006				
2007			8,89 – 13,10	27
2008			8,42 – 18,90	11
2009			8,06 – 20,80	39
2010			19,93 – 23,26	20
2011				
2012				
Total		0,469		97

Terms of the options and deferred purchase shares outstanding at 31 December 2004 are as follows:

Expiry date	Options		Deferred purchase	
	Exercise price R	Outstanding '000	Exercise price R	Outstanding '000
2006				
2007	11,75 – 13,10	71	8,89 – 13,10	97
2008	17,07 – 28,05	8 479	8,42 – 18,90	25
2009	11,71 – 51,50	3 491	8,06 – 20,80	78
2010	13,66 – 37,51	1 010	19,93 – 23,26	54
2011	36,75 – 43,00	3 317		
Total		16 368		254

	Options		Deferred purchase	
	Dec 2005	Dec 2004	Dec 2005	Dec 2004
Details of options vested but not sold during the year are as follows:				
Number of shares	4 049 950		30 810	
Exercise price (Share price range) (R)	11,75 – 62,00		9,17 – 23,26	

33. **EMPLOYEE BENEFITS (continued)**  
**Equity compensation benefits (continued)**

	Options '000	Long-term incentive plan '000	Deferred bonus plan '000	Deferred purchase '000	Total '000
Number of shares vesting at beginning of the period	16 368			254	16 622
Net change during the period	(2 445)	216	0,469	(157)	(2 386)
Number of shares vesting at end of the period	13 923	216	0,469	97	14 236

**Directors' interests in shares**

For details refer to the report of the directors

**Fair value of equity-settled share-based payment transactions with employees**

The group applies IFRS 2 to grants of shares, share options or other equity instruments that were granted. In determining the fair value of services received as consideration for equity instruments, measurement is reference to the fair value of the equity instruments granted.

The group applied the transitional provisions of IFRS 2 and applied the principles to grants that were granted after 7 November 2002. Kumba listed on 26 November 2001 and the volatility of its share price since then has been used to determine the calculations.

	<b>12-months ended 31 Dec 2005</b>	18-months ended 31 Dec 2004
The Black-Scholes methodology is used to calculate the fair value of options granted to employees. The inputs to the model are as follows:		
Weighted average share price	<b>63,12</b>	39,73
Exercise price range (R)	<b>39,25 – 98,50</b>	24,50 – 42,40
Annualised expected volatility (%)	<b>37,40 – 37,50</b>	37,50
Option life (years)	<b>7 – 13</b>	7
Dividend yield (%)	<b>2,8 – 4,6</b>	2,8
Risk-free interest rate (%)	<b>7,73 – 9,61</b>	8,65 – 10,36
Expected employee attrition	<b>4,60 – 5,50</b>	4,60
The Monte Carlo valuation methodology is used to calculate the fair value of Long-term Incentive Plan and Deferred Bonus Plan grants to employees. The inputs to the Long-term Incentive Plan model are as follows:		
Date of grant	<b>24 June 2005</b>	
Grant price	<b>55,00</b>	
Risk free rate (%)	<b>7,13</b>	
Dividend yield (%)	<b>2,76</b>	
Expected volatility (%)	<b>37,32</b>	
Time to vesting	<b>3 years from date of grant</b>	
Expected employee attrition	<b>4,60 per annum</b>	
The inputs to the Deferred Bonus Plan model are as follows:		
Date of grant	<b>1 September 2005 – 3 October 2005</b>	
Grant price range	<b>82,67 – 97,50</b>	
Risk free rate (%)	<b>7,13</b>	
Dividend yield (%)	<b>2,76</b>	
Expected volatility (%)	<b>37,32</b>	
Time to vesting	<b>3 years from date of grant</b>	
Expected employee attrition	<b>4,60 per annum</b>	

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for the 12-months ended 31 December 2005

	GROUP		COMPANY	
	At 31 Dec 2005 Rm	At 31 Dec 2004 Rm	At 31 Dec 2005 Rm	At 31 Dec 2004 Rm
<b>34. CONTINGENT LIABILITIES</b>				
Contingent liabilities at balance sheet date, not otherwise provided for in these annual financial statements, arising from:				
– Guarantees in the normal course of business from which it is anticipated that no material liabilities will arise:				
– related parties		2	<b>869</b>	610
– other	<b>33</b>	34	<b>2</b>	2
– Other <sup>1</sup>	<b>49</b>			
<i>1. Includes the group's share of contingent liabilities of associates and joint ventures of Rnil (2004: Rnil).</i>				
Included in the company's guarantees are guarantees relating to the Ticor SA project loans as provided by the company. On consolidation the project loans are included in net debt, and the contingent liability of the company eliminated.				
These contingent liabilities have no tax impact. The timing and occurrence of any possible outflows are uncertain.				
<b>35. COMMITMENTS</b>				
<b>Capital commitments</b>				
Capital expenditure contracted for plant and equipment	<b>1 635</b>	219	<b>34</b>	40
Capital expenditure authorised for plant and equipment but not contracted	<b>2 182</b>	668	<b>27</b>	14
The above includes the group's share of capital commitments of associates and joint ventures.	<b>2</b>			
Capital expenditure will be financed from available cash resources, funds generated from operations and available borrowing capacity.				
Capital expenditure contracted relating to captive mines (Thabazimbi and Tshikondeni), which will be financed by Mittal Steel (South Africa).	<b>6</b>	27		
A trust known as The New Africa Mining Fund was established during 2003 to make portfolio investments in junior mining projects within the Republic of South Africa and elsewhere on the continent of Africa. Kumba Resources, as an investor participant to the fund, has committed to contribute R20 million towards the fund. The Fund Manager can draw down this balance or any portion as and when required, by serving a 10-day notice to Kumba. The commitment period commenced on 1 March 2003 and expires on 28 February 2009. Kumba has contributed R9,9 million towards the fund since March 2003.				
<b>Operating lease commitments</b>				
The future minimum lease payments under non-cancellable operating leases are as follows:				
– Less than 1 year	<b>46</b>	39	<b>31</b>	32
– More than 1 year and less than 5 years	<b>105</b>	120	<b>69</b>	93
– More than 5 years	<b>12</b>	8		
<b>Total</b>	<b>163</b>	167	<b>100</b>	125
Included in above operating lease commitments is an operating lease commitment relating to a building which terminates in 2008. Various options are available to both the lessor and lessee on mutual agreement on termination of the operating lease.				
<b>Operating sublease</b>				
Non-cancellable operating lease rentals are receivable as follows:				
– Less than 1 year		7		7
– More than 1 year and less than 5 years	<b>1</b>	21		21
– More than 5 years				
<b>Total</b>	<b>1</b>	28		28