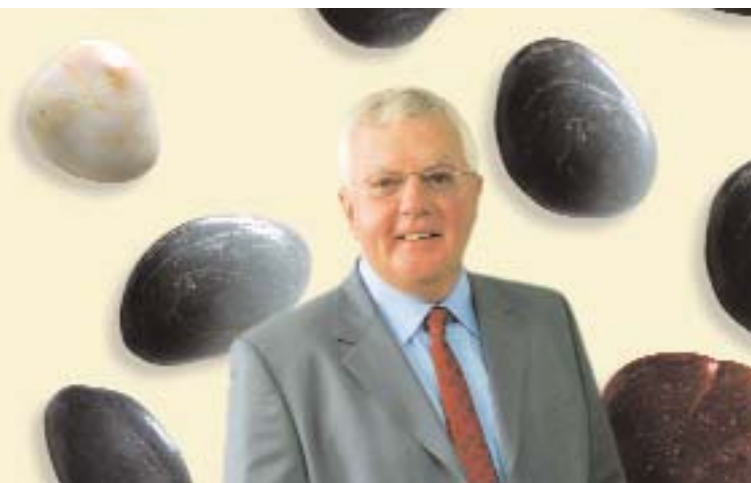


## CHAIRMAN'S STATEMENT



### ALLEN MORGAN – CHAIRMAN

#### INTRODUCTION

This is my first report to shareholders but not my first involvement with Kumba as I have been an independent, non-executive director since its inception in 2001. In April 2005, I had the privilege of taking over the chairmanship from Dawn Marole, who stepped down to pursue other business interests. I considered the chairmanship a great honour given that the Kumba board is made up of distinguished and competent directors, each with a different, yet complementary, set of skills which make it a very effective unit in providing innovative and visionary leadership.

I believe Kumba is a role model of governance in the mining industry for which it has received wide recognition. The responsibility to continually improve our corporate governance is a Kumba-wide team effort. We are all the custodians of Kumba's assets on behalf of our shareholders and we need to ensure that they earn good returns on their investment in a sustainable and socially-acceptable manner – to the benefit of all our stakeholders.

Assuming the chairmanship in the middle of Kumba's restructuring and transformation process was a challenge, but I believe we have managed the process as fast and as smoothly as possible, with minimal disruption to our people and our operations, as results for the year demonstrate – and thanks to an extremely competent management team.

The South African mining industry compares favourably with the best in the world. We have great technical and managerial competence and our practices and technologies are world-class. The challenge facing the domestic industry is meeting the requirements of the mining charter and allowing a broad base of previously disadvantaged South Africans access to ownership of viable and sustainable mining businesses. Hand in hand with this must go the development of appropriate technical and managerial skills.

In both respects, Kumba is meeting and exceeding its obligations – the transformation and unbundling process (summarised below and detailed on p16) will, with shareholder approval, result in an empowered and sustainable iron ore company, Kumba Iron Ore, while the creation of the flagship Newco (a temporary name) will by far exceed legislative requirements and deadlines. Kumba also plays a leading role in developing skills because we firmly believe that the best form of empowerment is training people: we estimate that Kumba trains almost 12% of engineering learners in South Africa, a commendable accomplishment for a single company. But much more must be done to address the shortage of skills that will prevent our country reaching its full potential. The shortage of technically-trained women is a particular challenge for the mining industry.

#### KUMBA'S TRANSFORMATION

In October 2005, we announced that Kumba would be split into two companies by placing its iron ore assets (Sishen, Thabazimbi and related offshore companies) into Kumba Iron Ore, and housing the balance of our existing assets in Newco. Newco's asset base will be supplemented by the coal assets of Eyesizwe Coal and options on heavy minerals and zinc assets from the Anglo American portfolio to create the country's biggest empowerment mining group,

valued at approximately R16 billion. Newco will retain a 20% shareholding in the South African iron ore assets, with Anglo American plc as majority shareholder in Kumba Iron Ore (p16).

Both companies will be listed on the JSE Limited to optimise value for existing and new shareholders. In essence, this transaction presents shareholders and all stakeholders with two listed companies with exciting investment cases – both role models in legislative compliance and governance standards, both responsible custodians of South Africa's natural resources and both significant contributors to our country's growth and prosperity.

Transformation was the catalyst behind this transaction but the accelerant was our duty to enhance shareholder value as custodians of R30 billion in stakeholder assets. In recent years, that custodial role has evolved beyond merely protecting and enhancing assets for stakeholders. We also needed to fulfil our commitment to comply with legislated targets for empowerment and adhere to global standards in corporate governance.

We believe this transaction accomplishes both objectives. Firstly, and well ahead of deadline, Newco will exceed the ownership targets set out in the mining charter with our empowerment partners and a broad base of employees owning an estimated 58% stake in South Africa's largest, listed, black-owned, controlled

# Bold transformation to create two exciting listed companies

and managed diversified mining company. Secondly, by transferring 80% of our interest in our iron ore assets to Kumba Iron Ore, and unbundling it to existing shareholders, all shareholders will be able to participate in the anticipated value enhancement while addressing the potential for a conflict of interest between Kumba and Anglo American plc in their overlapping asset bases.

The underlying transaction is a complex one, which has been developed in conjunction with various stakeholders. We thank the teams from Anglo American, the Industrial Development Corporation (IDC), government, our empowerment partners and our investment bankers for their invaluable contributions and cooperation in structuring the transaction. The Kumba transformation team deserves special thanks for an unstinting effort as do all our own people for their patience while the transaction was finalised.

Kumba's transformation process is a bold and creative one, which I believe sets a new standard in South Africa. We trust it will serve as an example for broader and imaginative transformation in our country, taking the true benefits of democracy to more citizens.

## BUSINESS ENVIRONMENT

The Mineral and Petroleum Resources Development Act (Minerals Act), promulgated in 2004, sets the timeline for the conversion of mineral rights. Kumba believes it satisfies the requirements of the act and is currently engaged in the process necessary to convert its mining and prospecting rights. Kumba fully supports this legislation which is intended to change the ownership profile of the industry, as reflected in its own empowerment transaction. As an industry, however, we reiterate our caution that the objectives of the Minerals Act, as well as those of the broad-based socio-economic empowerment charter for the industry (see p53, Legislative compliance), will best be realised if the following criteria are met:

- South Africa's mining industry succeeds in the international

marketplace, where it must seek most of its investment and where it sells its products

- The socio-economic challenges facing the industry are addressed in a significant and meaningful way.

The economic landscape during the year was characterised by strong global commodity demand, particularly from China, supporting higher metal and mineral prices and by a domestic currency that showed a robust performance.

The rand gained 1,24% against the US dollar in 2005 and was one of the top performers against the US currency for the year. Compared with currency fluctuations in 2004, greater stability in the rand is a welcome feature that enables companies to do better advance planning. The average spot exchange rate for 2005 was R6,36 compared with R6,44 for 2004 which, however, continued to constrain the competitiveness of South African exporters. The strong currency also enhances the attractiveness of imports into South Africa, ultimately affecting our ability to create jobs. At the same time, the escalating deficit on the current account and the continuous need for net foreign capital inflows to finance this deficit could pose a risk to the outlook for business confidence in the year ahead. We trust that the South African Reserve Bank will continue to achieve success in keeping inflation within its target range, while allowing interest rates to remain at levels that support South Africa's economic growth.

Kumba's strategic plan to mitigate the effects of currency strength has paid off, as our results show. We believe currency strength is a variable that must be managed. Managing it well will ensure a stronger, more viable organisation.

The government's R180 billion extended infrastructure development programme is welcomed as is any acceleration of its momentum, which will do much to fuel job creation in this country and support

the national goal of a 6% growth rate. As elaborated by the chief executive, the lack of artisan skills in South Africa has the potential to cripple many industries and ultimately the economy.

## DIRECTORATE

In April 2005, Dawn Marole stepped down as Kumba's chairman due to the time constraints of her other business interests. She played a valuable role during her term of office for which we thank her. We wish her well in her future endeavours.

Richard Wadley retired early in June 2005 to pursue personal interests. He leaves a valuable legacy for Kumba and we thank him for his considerable contributions.

## HIV/AIDS

Kumba's comprehensive and proactive HIV/Aids strategy is regarded as one of the best in the country. Programmes in place at all business units and the corporate office include counselling and voluntary testing, anti-retroviral treatment, peer education, wellness programmes and community-based initiatives and treatment of sexually-transmitted diseases. Although the prevalence rate in Kumba is lower than the mining industry, we believe a proactive approach focusing on education, awareness, prevention and appropriate treatment regimes is the best option in managing the potential impact of the pandemic.

## ACHIEVEMENTS AND AWARDS

- Tshikondeni received the Millionaire trophy from the Department of Minerals and Energy for one million fatality-free shifts (achieved over two years and eight months). This is an excellent achievement, particularly for an underground operation of 1 100 people and testimony to the commitment to safety excellence. The mine also received the Safety Achievement Flag from the Mine Health and Safety Council.
- Thabazimbi has recorded zero fatalities for three years while Sishen has recorded three million hours without a

lost-time injury. Glen Douglas, Saldanha and Sishen South recorded no lost-time injuries for 2005. Ticor's Hillendale mine reached the one-year injury-free target in January 2006.

- Kumba's integrated annual report for 2004 was ranked a joint fourth in the country in the inaugural Ernst & Young Excellence in Corporate Sustainability Reporting awards, sharing the top five places with Anglo Platinum, Nedbank, BHP Billiton and Sasol. As this was only our second annual report integrating sustainable development elements, this award was both an honour and a challenge.
- Kumba was first in the interim results category of the annual Business Day Financial Advertising Awards competition, judged on level of disclosure and clear communication.
- The company was again a constituent of the JSE Socially Responsible Investment Index, ranking companies on corporate governance, economic, social and environmental criteria.
- Kumba retained its sectoral first place in the Deloitte/Financial Mail survey of best companies to work for – for the third consecutive year – and was included in the Corporate Research Foundation's Best Companies to Work for in South Africa – for the third time.
- Sishen and Grootegeluk mines' corporate videos were rated among the best in the world at the 39th Annual US International Film and Video Festival. These are singular achievements in an event that attracts thousands of entries from around the

world each year, with the producer paying special tribute to the unstinting assistance from divisional personnel.

- At industry level, Kumba's people continue to make their mark. Willem van Niekerk, managing director of Zincor, was elected president of the SA Institute of Mining and Metallurgy, and Kenneth Kgomo of our supply chain management unit as chairman of the SA Mining Preferential Procurement Forum.

#### APPRECIATION

The people of Kumba have set the group apart in its industry since inception. They are the bedrock of its culture and its commitment to continuous improvement. Our results in a year characterised by the management focus on our empowerment transaction clearly demonstrate the calibre and dedication of all our people.

The favourable outcome of our transformation initiative is testimony to the innovation and passion of our management team and the inspirational leadership of Dr Con Fauconnier, whose tenacity and visionary approach have left an indelible stamp on Kumba and the history of the mining industry in South Africa. Collectively, the spirit, skill and determination of our executive team have created our country's flagship for empowerment and set the standard that others must follow.

I thank my fellow board members for their wise counsel and constructive

contributions during the year, and the dedicated chairmen of the respective board committees who ensured that it was business as usual at a time of great corporate activity.

The support of senior members and their respective teams in several government departments during the year reflects the solid relationships we have built over time. We will continue to strengthen these relationships in the best interests of our industry and our country.

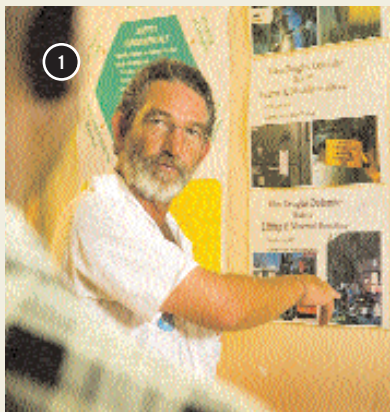
#### PROSPECTS

The first half of the 2006 financial year should see the finalisation of our multi-faceted transformation process and the listings of Kumba Iron Ore and Newco. Our expansion plans are firmly under way in iron ore and coal, and the benefits of our unrivalled growth pipeline will continue to unfold.

Between 1 January and 31 December 2005, Kumba's share price has appreciated by 132%, clear indication of the value perceived in our group by investors. We firmly believe that value will increase as the group completes its transformation.



**Allen Morgan**  
Chairman  
2 March 2006



1. The I Care Rules safety programme is actively followed at all operations. Here Gerhard Lemmer, head of safety, uses a visual presentation to communicate the programme at Glen Douglas.

2. The people of Kumba have set the group apart . . . Head of drilling and blasting at Grootegeluk, Londolani Rampfumedzi.