

## Record production and buoyant sales volumes, with revenue up 37%

### CHANGE IN FINANCIAL YEAR AND COMPARATIVE ANALYSIS

Kumba changed its financial year end from 30 June to 31 December in 2004 and is presenting its audited financial results for the 12-month period to 31 December 2005.

Kumba's previous audited financial results were for the 18-month period from 1 July 2003 to 31 December 2004.

Comments are for comparative purposes based on an analysis of the group's audited financial results and physical information for the 12 months ended 31 December 2005 against the corresponding unaudited information for the 12-month period ended 31 December 2004. Interim results reviewed by the group's auditors were published for the six months to 30 June 2005.

Audited financial results and physical information for the 12-month period to 31 December 2005 and the corresponding unaudited information for the 12-month period to 31 December 2004 respectively, are provided on p116 and p117 for comparative purposes.

### OVERVIEW OF GROUP OPERATING RESULTS

The 12-month period to December 2005 was marked by continued excellent operational performance, strong commodity prices and the continued realisation of benefits from the ongoing business improvement programme. Revenue increased by R3 253 million to R11 962 million and net operating profit, adjusted for the Hope Downs non-recurring settlement proceeds and other non-recurring charges, by R2 222 million to R3 643 million, resulting in an improved operating margin of 30% compared with 16% for the comparative period (table 1).

An average exchange rate of R6,36 to the US dollar was realised compared with R6,51 for the previous corresponding 12-month period.

**Table 1**

R million	12 months ended 31 December		18 months ended 31 December Restated 2004
	2005	2004	
Revenue	11 962	8 709	12 600
Net operating profit (Ebit)	4 887	1 368	1 845
Adjusted for:			
– Hope Downs pre-tax settlement proceeds	(1 179)		
– Non-recurring (surpluses)/net deficits and impairment charges realised on disposal of assets and investments	(65)	53	11
Adjusted net operating profit	3 643	1 421	1 856
Depreciation and amortisation	898	652	971
Earnings before interest, tax, depreciation and amortisation (Ebitda)	4 541	2 073	2 827
Operating margin (%)	30	16	15
Ebitda margin (%)	38	24	22

# Net operating profit up 171%, excluding Hope Downs settlement

## SEGMENTAL RESULTS

Segmental results are shown in tables 2 and 3.

**Table 2**

R million	12 months ended 31 December		18 months ended 31 December
	2005	2004	2004
<b>Revenue</b>			
Iron ore	6 638	4 250	6 065
Coal	2 203	1 878	2 733
Heavy minerals	1 928	1 662	2 438
– Ticor SA	839	514	668
– Ticor Australia	1 089	1 148	1 770
Base metals	1 070	812	1 212
Industrial minerals	106	95	138
Other	17	12	14
<b>Total</b>	<b>11 962</b>	<b>8 709</b>	<b>12 600</b>
R/US\$ exchange rate realised	6,36	6,51	6,67

**Table 3**

R million	12 months ended 31 December			18 months ended 31 December	
	2005	%	Restated 2004	%	Restated 2004
<b>Net operating profit (Rm)/margin (%)</b>					
Iron ore	2 767	42	833	20	1 134
Coal	554	25	430	23	544
Heavy minerals	227		254		203
– Ticor SA	(79)		(10)		(22)
– Ticor Australia	306	28	264	23	225
Base metals	69	6	(116)		(153)
Industrial minerals	26	25	20	21	27
Other					
– Hope Downs	1 179				
– Other	65		(53)		90
<b>Total</b>	<b>4 887</b>	<b>41</b>	<b>1 368</b>	<b>16</b>	<b>1 845</b>

## IRON ORE

Revenue increased significantly by 56% to R6 638 million and net operating profit by 232% to R2 767 million, with the operating margin improving to 42%. This was due to the excellent operational performance, business improvement results, record-breaking iron ore price settlements of 71,5% on average effective 1 April 2005 and a higher-margin sales product mix which more than offset the effects of higher petroleum and labour costs. The international US dollar prices for iron ore are set from 1 April until 31 March the following year.

## COAL

Revenue increased by 17% to R2 203 million due to increased sales volumes at higher prices. Higher revenue together with business improvement initiatives resulted in net operating profit improving by 29% to R554 million despite increased stripping costs and petroleum prices.

## HEAVY MINERALS

### Ticor SA

Total production and sales increased in line with the ramp-up of the furnaces. This, together with higher sales prices for zircon and low manganese pig iron, resulted in revenue increasing by 63% to R839 million. The stronger currency, increased raw material costs and the cessation of capitalisation of costs and interest during the construction period more than offset improved revenues, resulting in a net operating loss of R79 million for the year.

### Ticor Australia

Kumba acquired the minority shareholding in Ticor Limited resulting in it becoming a wholly-owned subsidiary and being delisted from the Australian Stock Exchange (ASX) on 22 November 2005. As a result, Ticor's 40% holding in Ticor SA was restructured into a direct holding by Kumba.

Revenue decreased by 5% over the comparative period to R1 089 million as a result of the effects of the final closure of Ticor's chemical business in May 2004. Net operating profit, however, increased by 16% to R306 million due to higher pigment and zircon prices, the elimination of losses recorded by the chemicals business, the ongoing success of margin-improvement initiatives and favourable hedging programmes.

## BASE METALS

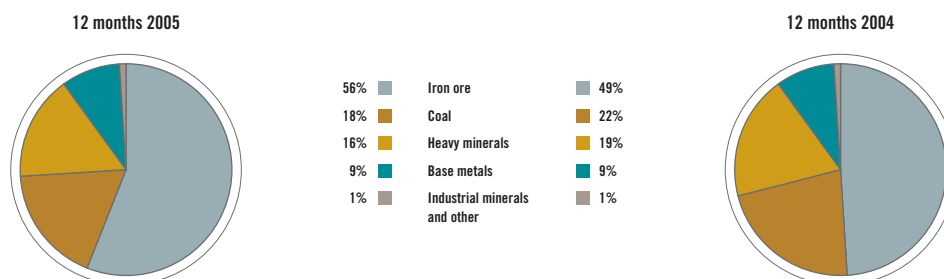
The sale of an additional 23kt of lead and a significant increase in the LME-traded zinc price from an average of US\$1 048 per tonne in the comparative period to US\$1 382 per tonne in 2005 resulted in revenue improving by 32% to R1 070 million despite continued low treatment charges and a stronger currency.

Net operating profit, which improved to R69 million from a loss of R116 million during the comparative period, was due to increased revenues, non-recurrence of impairment charges raised in the comparative period and the benefits from the business improvement programme.

A provision of R182 million, representing the business unit's best estimate for the environmental rehabilitation of a residue disposal site at the Zincor refinery, was raised against its prior year's retained income. Investigation of viable reclamation alternatives is continuing. The provision at 31 December 2005 amounted to R191 million.

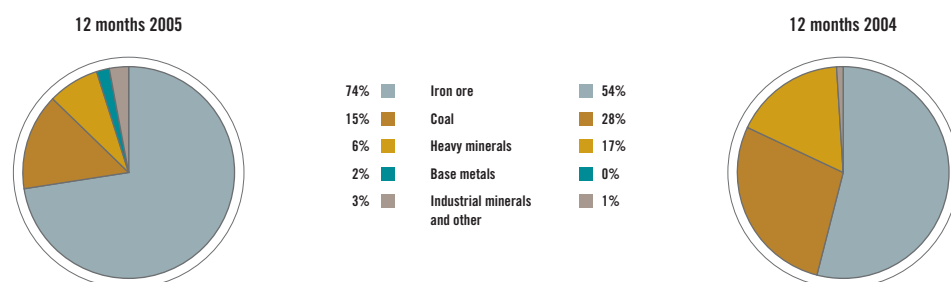
The revenue and net operating profit contribution of the various businesses is as follows:

### Revenue contribution



# Net financing cost covered 20 times by EBITDA

**EBIT contribution** (excluding Hope Downs proceeds)



## NET FINANCING COSTS

Net financing costs consist of interest expense, net of interest earned and interest capitalised on project developments. The average monthly effective cost of borrowings decreased from 11,3% per annum to 10,6% per annum in line with lower interest rates. At 31 December 2005, 56% of our corporate borrowings, inclusive of the Ticor SA project finance loans, carried interest at fixed rates. Net financing costs decreased by R56 million to R231 million and were covered 20 times by EBITDA compared with 7 times in the 12 months to 31 December 2004.

No interest cost was capitalised during the current financial year compared with R118 million in the comparative period. Capitalisation of interest on the project loans for the mine operation of Ticor SA ceased in December 2001 and for the smelter operation on 31 December 2004.

## INCOME FROM EQUITY-ACCOUNTED INVESTMENTS

Our share of attributable profits from investments, after tax, increased as a consequence of a higher contribution from our investment in the Chifeng zinc refinery and the divestment from GijimaAST Limited.

**Table 4**

R million	12 months ended 31 December		18 months ended 31 December
	2005	2004	2004
AST <sup>1</sup>	(5)	(32)	(52)
Chifeng zinc refinery	12	9	10
Total	7	(23)	(42)

1. Equity accounting discontinued on 3 May 2005 after AST's rights issue and business combination with Gijima Info Technologies Afrika (Pty) Limited, which diluted Kumba's interest to 4,6% in the newly formed GijimaAST Limited. Guma Investment Holdings (Pty) Limited exercised its option to also acquire Kumba's remaining interest in GijimaAST Limited prior to 31 December 2005.

Investments in incorporated joint ventures that were previously equity accounted have been proportionally consolidated from 1 January 2005 (refer note 2 of the annual financial statements). Comparatives have been restated. The change does not impact on attributable or headline earnings.

## EARNINGS

The significant improvement in net operating profit and a non-recurring settlement of R1 179 million pre-tax for the acquisition of Kumba's interest in the Hope Downs project, after accounting for net finance charges of R231 million and a higher taxation charge of R1 412 million, resulted in attributable earnings increasing by 400% to R3 190 million for the financial year. Headline earnings were 223% higher at R2 373 million or 781 cents per share.

# Final dividend of 160 cents per share (540 cents per share for the financial year including special dividend)



**Table 5**

R million	12 months ended 31 December		18 months ended 31 December
	2005	2004	2004
Attributable earnings	3 190	638	891
Adjusted for:			
• Net (surplus)/deficit on disposal or scrapping of operating assets and investments	(1 177)	110	(24)
• Impairment charges*	28	(57)	35
• Closure cost		35	35
• Excess over cost of acquisition of minority interest**	(95)	(4)	(6)
• Our share of associates' goodwill amortisation and exceptional items		29	47
• Minority share adjustment	(1)		
• Tax effect	428	(17)	(12)
<b>Headline earnings</b>	<b>2 373</b>	<b>734</b>	<b>966</b>
*Impairment charges raised:			
• Ticor Chemicals cyanide plant in Australia			89
• Investment in ZnERGY (Pty) Limited		26	26
• Preference share investment in Rosh Pinah Mine Holdings (Pty) Limited		9	9
• Reversal of impairment of shipping assets sold		(90)	(90)
• Impairment of intangible assets in Ticor Limited	20		
• Impairment of investment in joint venture	7		
• Other	1	(2)	1
<b>Total impairments</b>	<b>28</b>	<b>(57)</b>	<b>35</b>

\*\* Refer p29

## TAXATION

The tax charge for the 12-month period to 31 December 2004 increased by R1 082 million to R1 412 million in line with the improved net operating profit.

The effective tax rate is 30,3% compared with 31,2% for the comparative period.

## DIVIDENDS

Our policy remains to pay regular dividends. The level of dividend payments is considered half-yearly against prevailing trading conditions, our balance sheet structure and available cash flow, taking cognisance of value-adding growth opportunities. The board accordingly approved the following dividends for the 12-month period ended 31 December 2005.

Period ended	cps	Dividend		Declared	Paid/payable
		Rm	Rm*		
30 June 2005	160	487	548	August 2005	September 2005
1 July 2005 (special)	220	670	754	August 2005	September 2005
31 December 2005	160	490	551	February 2006	March 2006
<b>Total</b>	<b>540</b>	<b>1 647</b>	<b>1 853</b>		

\* Includes standard tax levied on dividends paid by companies.

The non-recurring post-tax receipt for Kumba's interest in the Hope Downs project was declared as a special dividend in August 2005.

Total dividends (excluding STC) for the 12 months to 31 December 2005 are covered 1,94 times by attributable earnings.

# Net debt to equity ratio of 19%

## CASH FLOW

Cash retained from operations was R1 829 million higher over the comparative period and, together with the Hope Downs project settlement, was applied to settle finance charges of R189 million, higher cash taxes of R821 million, increased dividends of R1 447 million and the acquisition of the minority interest in Ticor Limited, Australia for R1 174 million.

This, together with capital expenditure of R1 044 million, of which R655 million was invested in new production capacity, resulted in a net cash inflow of R459 million for the financial period under review.

**Table 6**

R million	12 months ended 31 December		18 months ended
	2005	2004	31 December 2004
Net cash retained from operations	<b>3 864</b>	2 035	2 661
Net financing cost, taxation and dividends	<b>(2 457)</b>	(581)	(1 029)
Cash used in investing activities			
• New capacity	<b>(655)</b>	(487)	(825)
• Other capital expenditure	<b>(389)</b>	(399)	(571)
• Acquisition of Ticor Limited's minority interest	<b>(1 174)</b>		
Asset and investment disposals <sup>1</sup>	<b>1 202</b>	50	238
Share issue <sup>2</sup>	<b>128</b>		132
Other movements <sup>3</sup>	<b>(40)</b>	75	(114)
Decrease in net debt	<b>479</b>	693	492

1. Includes the R1 179 million proceeds from the Hope Downs Project.

2. Proceeds from the issue of shares under the management share scheme.

3. Non-cash flow movements in net debt arising primarily from currency translation differences.

## FINANCIAL STRUCTURE

Net debt decreased to R1 391 million with a net debt to equity ratio of 19% at 31 December 2005, from R1 870 million and a net debt to equity ratio of 29% at the previous financial year-end close of 31 December 2004. Net debt was 0,3 times Ebitda compared with 0,9 times Ebitda at 31 December 2004.

The redemption profile of our long-term interest-bearing borrowings is satisfactorily spread with significant undrawn facilities and a low utilisation of short-term bank lines. This, together with new term facilities, will adequately cover any refinancing that may be required in 2006 and 2007

**Table 7: Debt structure**

R million	Drawn	Undrawn	Maturity profile	
<b>Long-term</b>			2006	685
Corporate	1 191	316	2007	934
Ticor SA project finance	869		2008	484
Ticor Pty Limited, Australia	589	171	2009	218
	<b>2 649</b>	<b>487</b>	After 2009	328
<b>Short-term</b>				<b>2 649</b>
Total debt	<b>2 874</b>			
Cash and cash equivalents	(1 483)			
<b>Net debt</b>	<b>1 391</b>			

## CAPITAL EXPENDITURE

Table 8 contains a comparison of capital expenditure for the 12-month periods ended 31 December 2005 and 2004 together with an estimate for the 2006 financial year. In contrast to the previous financial years where our investment in the Tigor SA project dominated our capital expenditure into new production capacity, iron ore and coal expansion projects attracted most of the capital expenditure for the period under review. The approved Sishen expansion project (p44), will account for 41% of the 2006 estimated capital expenditure.

**Table 8**

Capital expenditure	Financial year 2006 estimate	12 months ended 31 December		18 months ended 31 December
R million		2005	2004	2004
Sustaining and environmental Expansion	824	389	399	571
• Iron ore	1 665	274	38	78
• Coal	377	311	66	81
• Heavy minerals	144	66	351	624
• Base metals		2	32	42
• Other		2		
Total	3 010	1 044	886	1 396

## HEDGING (refer note 30.1 to the annual financial statements)

Our hedging of export earnings continues to focus on short-term forward periods within board approved policy parameters. Hedging activity approximated the spot rates over the 12-month period compared with a contribution of R100 million for the 18-month period to 31 December 2004.

In line with our policy on foreign currency commitments, R92,6 million of our capital commitments on the Sishen expansion project were covered at an average exchange rate of R6,82 to the US dollar, R16,9 to the yen and R8,35 to the euro at 31 December 2005. This represents 62% of the anticipated import content, which is 4% of the estimated capital expenditure of the project.

## CHANGES TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The majority of listed companies in South Africa faced the challenge of full IFRS compliance for years ending on or after 1 January 2005.

Kumba, even though already reporting in terms of IFRS since 1 July 2001, was required to ensure compliance with the numerous improvements to existing International Accounting Standards, most notably the following:

- the adoption of IFRS 2, Share-based Payments, having an impact of R38 million and R30 million on profit and loss for the 12- and 18-month periods to 31 December 2005 and 2004 respectively; and
- the adoption of IFRS 3, Business Combinations, in terms of which the recognition of negative goodwill was discontinued. This resulted in R53 million being adjusted against opening retained income at 1 January 2005, and a further R95 million excess amount over the cost of acquisition of the minority interest in Tigor Limited, Australia, being recognised in the current year's earnings.

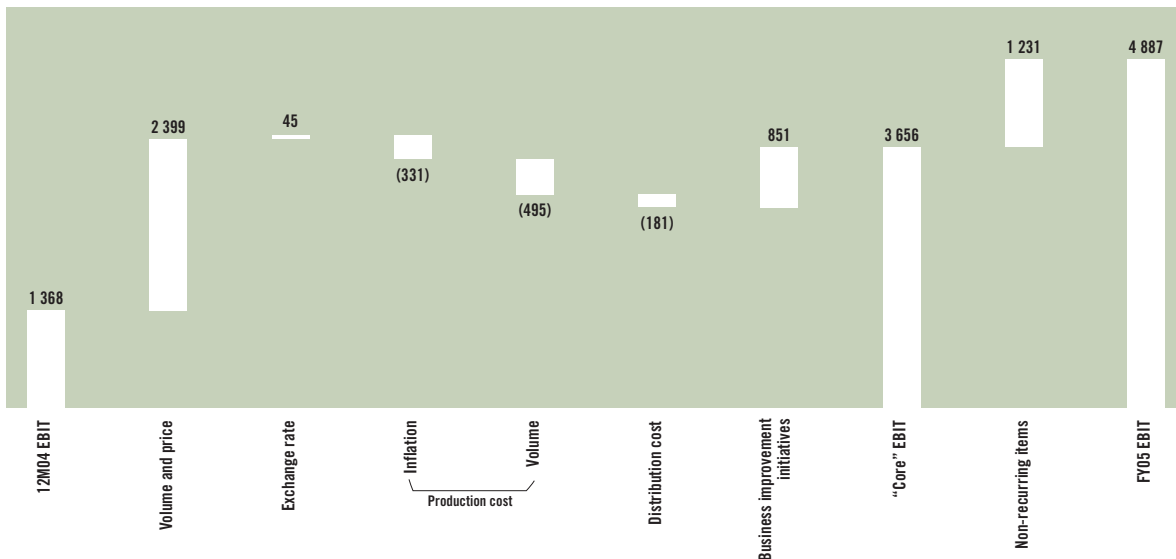
## BUSINESS IMPROVEMENT PROGRAMME

To counter fluctuations in the exchange rate, remain competitive and meet its growth aspirations, Kumba launched a comprehensive business improvement programme in 2004, consisting of a combination of increased throughput and revenue, improved business processes and cost reductions. The target set in 2004 of an R800 million sustainable contribution to net operating profit from our 2006 financial year is being rigorously tracked and reported. The initial target of R800 million has been revised to a target of R1 422 million in 2005, the full amount of which was realised in 2004 and 2005.

# Share price outperforms indices

The graph below depicting our Ebit comparison year-on-year demonstrates that the benefits of the business improvement initiatives, net of once-off implementation costs, have already started to flow through to the group's results for the two 12-month periods.

## Ebit comparison



Ebit for the 12-months to 31 December 2004 included a contribution of R400 million from the business improvement programme of which R169 million realised in cost savings, with a further net amount of R851 million in the period under review of which R260 million consists of cost savings.

## POST-RETIREMENT BENEFIT LIABILITY

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

Kumba is a participating employer in a number of defined contribution funds and two closed defined benefit funds. These defined benefit funds were adequately funded as per the latest actuarial valuations on 31 December 2004 and 31 December 2002 respectively.

## SHARE PRICE PERFORMANCE

A year-on-year, 12 months to 31 December comparison shows that the volume weighted average share price was R74,59 against R40,07 for the previous year, while the daily trade in shares averaged 428 399 in 2005 compared with 271 247 in the previous period. During the year under review, the share peaked at R109,13 in December 2005 (against a high of R49,00 in the previous financial year) and bottomed at R44,06 in January 2005 versus a low of R32,35 in June 2004. Following the announcement of the empowerment transaction and speculation of a higher-than-anticipated iron ore price settlement for 2006, Kumba's share reached a new high of R126,58 on 19 January 2006.

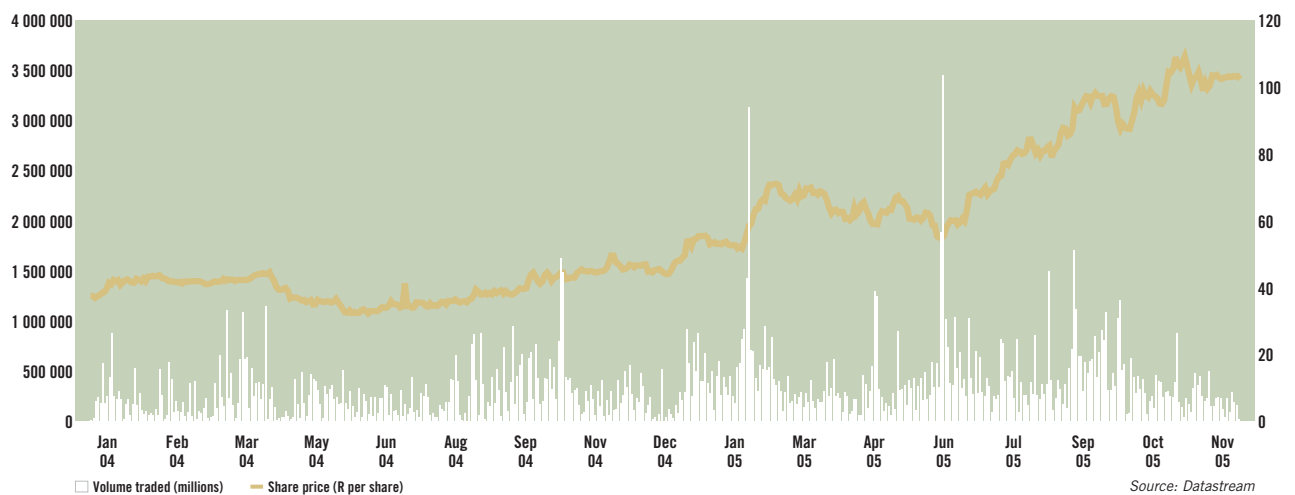
In the four years since listing, Kumba has significantly outperformed both the JSE overall index (+49%) and JSE resources index (+57%). The acquisition of a majority shareholding by Anglo American plc in Kumba in December 2003 resulted in the liquidity and tradability of the share decreasing substantially. Although this has affected its rating, Kumba's share price has nevertheless, in the review period, outperformed the JSE overall index by 42% and the JSE resources index by 40%. This can be compared to an outperformance of the JSE resources index by 14% in 2004 and a 3% underperformance of the JSE overall index over the same period. In fact, Kumba was the best-performing ALSI 40 share in 2005 with an annual appreciation of some 132%.

A comparison with its peers shows that during the year under review Kumba outperformed both BHP Billiton and Anglo American plc by 38% and 45% respectively.

**Table 9: Share price analysis (SA cents per share)**

Year end 31 December

	High	Low	Median
<b>2005</b>	10 913	4 406	7 459
2004	4 900	3 235	4 007
2003	3 995	2 410	3 247
2002	5 850	3 001	4 158
<b>2005</b>			
First quarter	7 108	4 406	5 805
Second quarter	6 997	5 492	6 283
Third quarter	9 830	5 892	7 811
Fourth quarter	10 913	8 752	9 936
<b>2004</b>			
First quarter	4 363	3 711	4 164
Second quarter	4 450	3 235	3 781
Third quarter	4 920	3 325	4 007
Fourth quarter	4 900	3 950	4 462

**Share price against daily traded volumes**

**Share price against daily traded volumes**
