KUMBA IRON ORE LIMITED
ANNUAL FINANCIAL STATEMENTS 2018

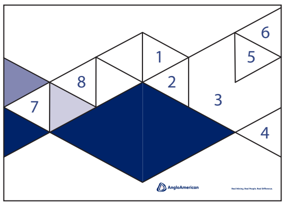
UNLOCKING OUR FULL POTENTIAL
DISCIPLINED GROWTH FOR A SUSTAINABLE FUTURE

AngloAmerican

Real Mining. Real People. Real Difference.

OUR APPROACH TO REPORTING

ENHANCING VALUE



Cover images
1. Portia Booysen carrying out a lock out and isolation procedure at the life of mine truck workshop at Sishen.
2. Wayne Oerson and Reuben Mmodi, Sishen employees working at the loadout station control room monitoring the feed from the stacker reclaimer.
3. Patrick Steenkamp and Franklin Stanley, Quality Controllers at Sishen overlooking the JIG plant conveyers.
4. Kenneth Vogies, a Process Controller at Kolomela, working at the loadout station.
5. Patrick Steenkamp, a Quality Controller at Sishen, working on one of the stacker reclaimers at the stock yard.
6. Tsipi skills and civil training centre at Sishen, instructor Mmolike Ogotseng leading students, Rebone Kadi, Baltshepi Matebesi , Gamotsegang Gaolewe and Goitheone Moncho through scaffolding practical.
7. Sibongile Makganye, a Pit Geologist, logging and inspecting drilling samples at the Welgevonden Farm House near Kolomela.
8. Peace Kagisho Smous, (Renosi Projects Technical Director), Mogapi Rakumakoe (CEO of the district hospital), Obakeng Nchube (Renosi Projects Director) and Lood Coetzee (Technical Manager) discussing the upgrades for the theatre room in Postmasburg.

AUDITED ANNUAL FINANCIAL STATEMENTS

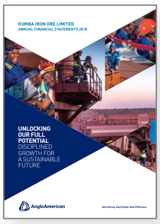
For more information see www.angloamericankumba.com

DIRECTORS' DECLARATION

The Kumba Iron Ore Limited (Kumba or the Company or the group) Board, assisted by the Audit Committee, is ultimately responsible for the preparation, fair presentation and integrity of the audited annual financial statements and related financial information of the group, as contained in this report, the Annual Financial Statements 2018. The Board of directors confirm that they have collectively reviewed the content of this report and approved it at its meeting on 15 March 2019, for presentation to shareholders at the next annual general meeting on 10 May 2019. The Annual Financial Statements 2018 have been prepared under the supervision of BA Mazarura CA(SA), Chief Financial Officer.

Navigating our 2018 reports

Our integrated reporting suite comprises the following reports:

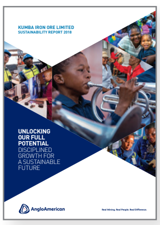


ANNUAL FINANCIAL STATEMENTS (AFS)

Detailed analysis of our financial results, with audited financial statements, prepared in accordance with International Financial Reporting Standards (IFRS).

INTEGRATED REPORT (IR)

A succinct review of our strategy and business model, operating context, governance and operational performance, targeted primarily at current and prospective investors.



SUSTAINABILITY REPORT (SR)

Reviews our approach to managing our significant economic, social and environmental impacts, and to addressing those sustainability issues of interest to a broad range of stakeholders.

ORE RESERVE (AND SALEABLE PRODUCT) AND MINERAL RESOURCE REPORT (ORMR)*

Reported in accordance with the South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC Code – 2016 edition).

* Published on 9 April 2019.

Online

Each of these reports, with additional updated information, is available on our website:

www.angloamericankumba.com

KEY FEATURES

- **Delivering sustainable shareholder returns**
  - **STRONG CASH** GENERATED FROM OPERATIONS OF R18.9 BILLION
  - **HEADLINE EARNINGS** OF **R30.28** PER SHARE
  - FINAL CASH DIVIDEND OF **R15.73** PER SHARE, TOTAL DIVIDEND OF **R30.24** PER SHARE

- **Strong safety and operational performance**
  - MAINTAINED **FATALITY-FREE RECORD**
  - HIGH POTENTIAL INCIDENTS **REDUCED BY 67%**
  - **OPERATING EFFICIENCY AT 65%** OF BENCHMARK

- **Margin benefit from enhanced product portfolio**
  - PRODUCT QUALITY **IMPROVED** TO AN AVERAGE FE OF **64.5%**
  - AVERAGE REALISED FOB EXPORT PRICE OF **US$72/TONNE**
  - **COST SAVINGS** ACHIEVED OF ~**R1 BILLION**
  - EBITDA MARGIN **IMPROVED TO 45%**

CONTENTS

CHIEF FINANCIAL OFFICER'S REVIEW

UNLOCKING OUR FULL POTENTIAL

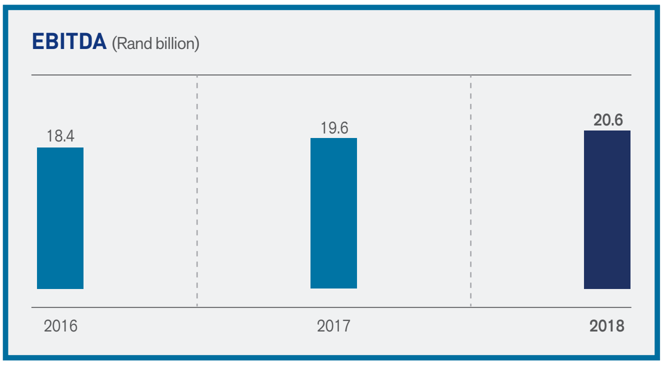
Achieved a higher average realised FOB export price of US$72/tonne

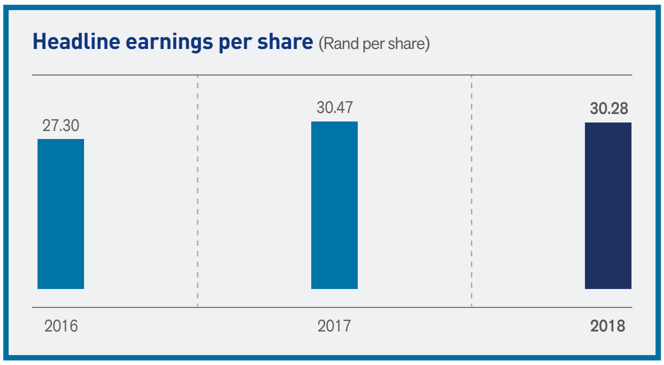
Delivered cost savings close to R1 billion against a target of R0.8 billion

Produced EBITDA growth of 5% to R20.6 billion

Solid headline earnings of R9.7 billion, translating into R30.28 per share

Final cash dividend of R15.73 per share, with total dividend of R30.24 per share



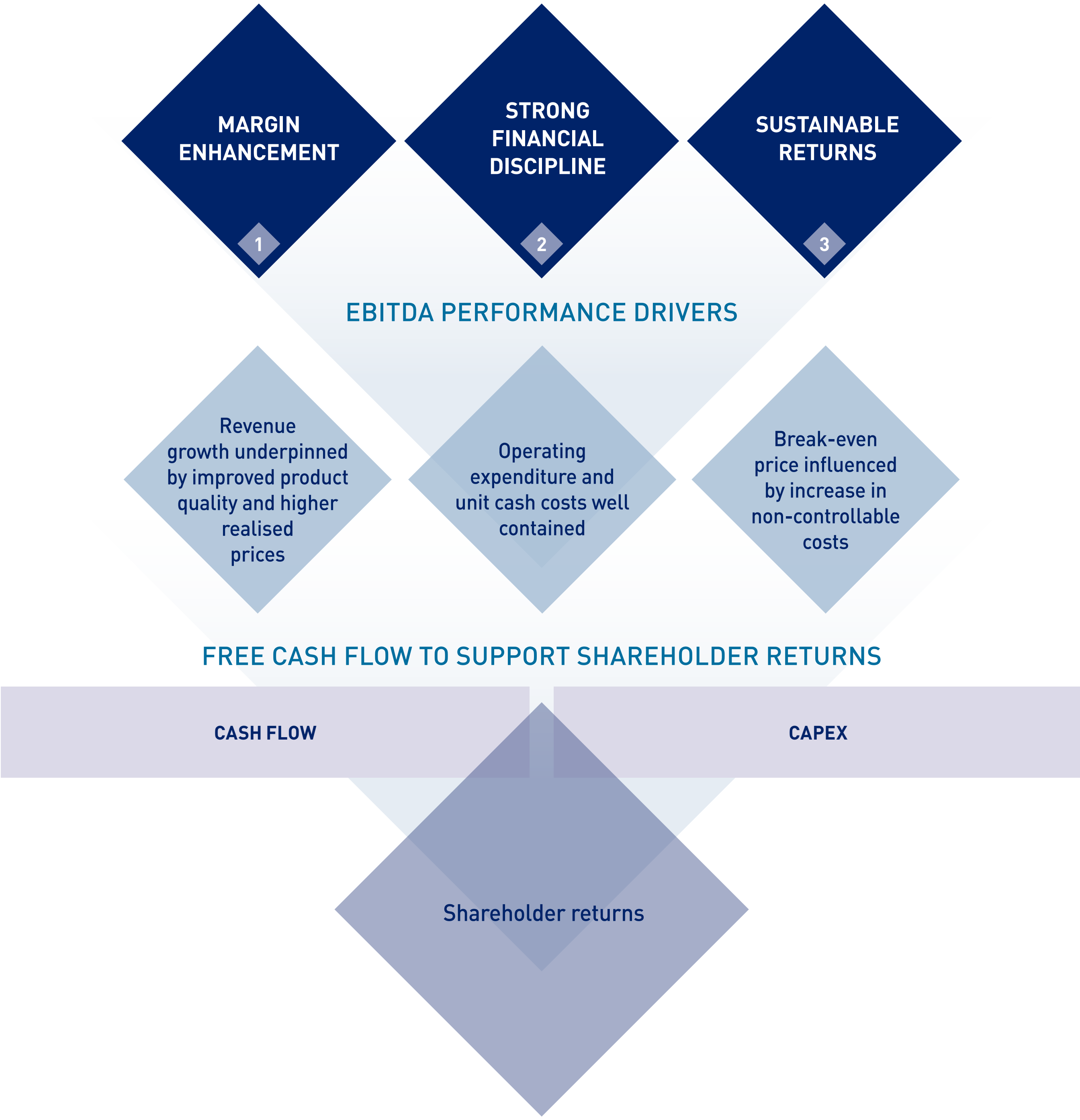


MAXIMISING VALUE FROM OUR PREMIUM PRODUCT PORTFOLIO

Kumba continued to make good progress on its Tswelelopele programme with further gains from cost and productivity initiatives, as well as improved price realisation. These factors ensured that Kumba delivered its strategic objectives despite the challenges of operating within a volatile global economy and, locally, within a rail constrained environment. We remain well positioned to maximise the benefit from the structural shift to high-quality products. Our cash flow generation and balance sheet remains robust, supporting sustainable value creation for our shareholders through ongoing investment in the business alongside delivering shareholder returns.

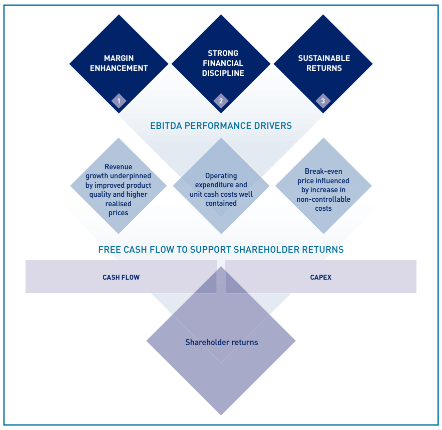
DELIVERY AGAINST KEY FOCUS AREAS

Our financial focus has been to support Kumba's strategy of unlocking its full asset potential and delivering shareholder returns through the three key focus areas as presented in the diagram below:



Annual Financial Statements

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED



FOCUS ON MARGIN ENHANCEMENT

In an above-inflation cost-growth environment, we believe that sustainable growth can only be driven by margin enhancement, underpinned by our ability to contain costs and capture maximum value for our products. Following extensive work to unpack our value drivers across the business, we are targeting a US$10/tonne improvement in margin by the end of 2022.

Our focus on this objective in 2018 included increasing the quality of our products to ensure that we were well positioned for the structural shift towards higher quality iron ore in China, while further diversifying our client base in line with our enhanced product portfolio. Strengthened alignment between the operations and sales teams enabled real-time planning and flexible production, providing the capability to change product quality according to market demand and ensuring that we are able to supply the right product at the right time in a rail constrained environment.

Our product portfolio now ranges from standard and premium lump and fines to super-premium lump with an average quality of 64.5% Fe (2017: 64.1% Fe) and a lump:fine ratio of 68:32 (2017: 66:34), while our alumina content of 1.4% is amongst the lowest in the world. As a result, we successfully captured a US$2/tonne uplift from the lump, Fe and market premia resulting in a higher average realised price of US$72/tonne, reflecting Kumba's ability to leverage its assets and adapt quickly to market demand.

In line with our enhanced product portfolio, we continued to grow our market share in geographic regions that utilise premium iron ore, such as Europe/MENA, which has increased from 18% in 2017 to 21% in 2018 of the client portfolio. This resulted in the share of premium products increasing to ~30% of total sales.

Overall our focus on capturing market premia underpinned revenue generation of R45.7 billion and contributed to a 5% increase in our EBITDA of R20.6 billion, resulting in an EBITDA margin of 45%.

STRONG FINANCIAL DISCIPLINE

Cost stewardship is a key driver of margin enhancement. With above-inflation cost growth from higher fuel prices and freight rates, our aim is to offset consumer price index (CPI) related cost increases through cost discipline and sustainable cost savings.

A detailed analysis of our business – from head office to operations and logistics – has identified cost saving opportunities that can be unlocked over a five-year period. For 2018, we implemented initiatives targeting R800 million of cost savings across the value chain, including procurement, operational efficiency, contractor management, overheads, and maintenance. Emphasis was placed on reducing structural costs by working smarter.

We exceeded our target and delivered approximately R1 billion of savings, containing operating expenditure at 2017 levels against an environment in which the average mining cost inflation was 4.7% and diesel prices increased 18% in 2018. Looking ahead, in 2019, we are targeting R700 million and by 2022 our ambition is to achieve R2.6 billion of cost savings.

Overall, the benefit of our margin enhancement strategy is reflected in our ability to contain the increase in our break-even price to US$1/tonne, at US$41/tonne. This highlights the achievements made through strong financial discipline, together with our Tswelelopele strategy.

DELIVERING SUSTAINABLE RETURNS

Kumba's balance sheet remained robust, with strong cash generation providing flexibility in the current volatile market environment. Through our capital allocation framework, cash generated from operating activities services our tax commitments, SIB capital and dividends to shareholders in line with our dividend policy. Excess discretionary cash flow is deployed in the best long-term interests of shareholders with consideration of further investment in the business and incremental returns to shareholders. Throughout the cycle, we aim to retain a net cash balance to ensure that we remain in a position of strength and maintain flexibility against potential headwinds.

Altogether, our strategic initiatives delivered a return on capital employed (ROCE) of 49.3% (2017: 53.3%) and attributable earnings of R9.6 billion (2017: R12.3 billion, including the impairment reversal of R4.8 billion).

On 24 July 2018, Kumba announced a new dividend policy targeting a base dividend range of between 50 and 75% of headline earnings to shareholders. The dividend policy reflects the cyclical nature of our industry and our position as a single commodity player while providing our shareholder with the opportunity to fully participate in our prospects throughout the cycle. The policy is based on a more definitive target payout ratio that demonstrates the prioritisation of sustainable shareholder returns through the cycle and disciplined capital allocation following the continued success of our strategy in driving operational and margin improvement, our ability to generate cash sustainability, supported by a clearer path to life extension.

Despite the headwinds from logistical challenges, headline earnings per share for the year were R30.28 (2017: R30.47). The Board declared a final cash dividend of R15.73 per share (2017: R15.00), resulting in a total dividend for the year of R30.24 per share (2017: R30.97). This equates to 100% of headline earnings for 2018 due to the once-off top-up cash dividend of R7.53 per share declared in July 2018.

2018 FINANCIAL PERFORMANCE

The analysis of our performance drivers should be viewed together with the strategy on pages 3 to 5 of the Integrated Report 2018 and the results booklet on our website www.angloamericankumba.com/investors/annual-reporting.aspx.

EBITDA PERFORMANCE DRIVERS

Revenue – market premia partially offset lower sales volumes

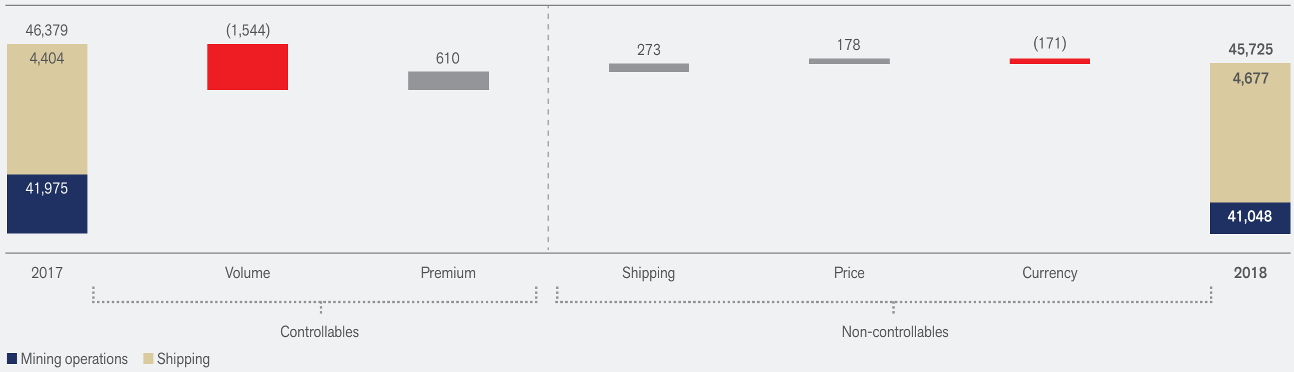
Total revenue decreased by 1% to R45.7 billion compared to R46.4 billion for 2017, mainly as a result of total sales reducing by 1.6 Mt and the marginal strengthening of the average Rand/US$ exchange rate to R13.24/US$1 (2017: R13.30/US$1). This was partially offset by a 1% increase in the average realised iron ore price of US$72/tonne (2017: US$71/tonne). Freight rates strengthened by US$2.5/tonne compared to 2017, resulting in a R273 million increase in shipping revenue.

Kumba's higher average achieved free-on-board (FOB) price was driven by higher lump and Fe premia, mitigating the impact of weaker iron ore index prices. On average, the 62% Platts index decreased by US$1.8/tonne to US$69.5/tonne, whilst the achieved lump, Fe and market premia increased by US$5.4/tonne to US$16.7/tonne and freight rates increased by US$2.6/tonne to US$14.1/tonne.

Total sales decreased 4% to 43.3 Mt (2017: 44.9 Mt), driven by total export sales decreasing 4% to 40.0 Mt (2017: 41.6 Mt), including 1.2 Mt sourced from third-party producers. Kumba continued to build on its market position by further diversifying its customer portfolio and increasing sales in regions utilising direct-charge materials thereby realising higher average prices for its quality products. China represented 57% (2017: 63%) of Kumba's total exports, whilst the share of the EU/MENA region increased to 21% (2017: 18%), and Japan and South Korea to 19% (2017: 17%).

Domestic sales remained in line with 2017 at 3.3 Mt. Sales to ArcelorMittal SA were made under the Export Parity Price in accordance with the supply agreement.

Revenue (Rand million)



CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

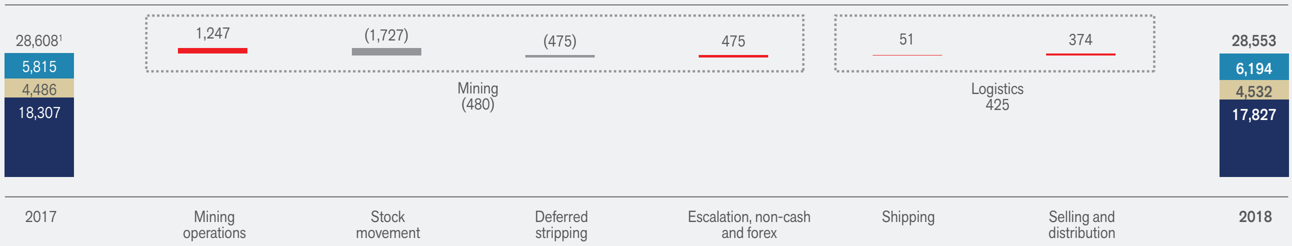
Operating expenditure reduced through cost savings and lower volumes

Operating expenses decreased marginally to R29.4 billion, compared to R29.8 billion (excluding the 2017 impairment reversal) in the prior year. Good cost stewardship across the value chain coupled with our cost savings initiatives, aimed at offsetting inflation-related costs and reducing controllable cost, delivered savings of approximately R1 billion, ahead of our 2018 target of R800 million.

The main cost savings initiatives were from operating efficiency improvements, overhead cost reductions, as well as good supplier and contractor management. These actions largely offset higher mining, an increase in production costs stemming from lower production volumes, cost inflation headwinds as well as higher distribution costs. Selling and distribution costs increased by 6% largely due to higher demurrage caused by rail constraints and above inflation increases in Transnet tariffs.

Freight costs of R4.5 billion remained constant year-on-year as 1.6 Mt lower shipping volumes were offset by a US$1.20/tonne higher average Platts freight rate on the Saldanha-Qingdao route. Kumba freight rates averaged US$13/tonne, a 10% increase from US$11.8/tonne in 2017.

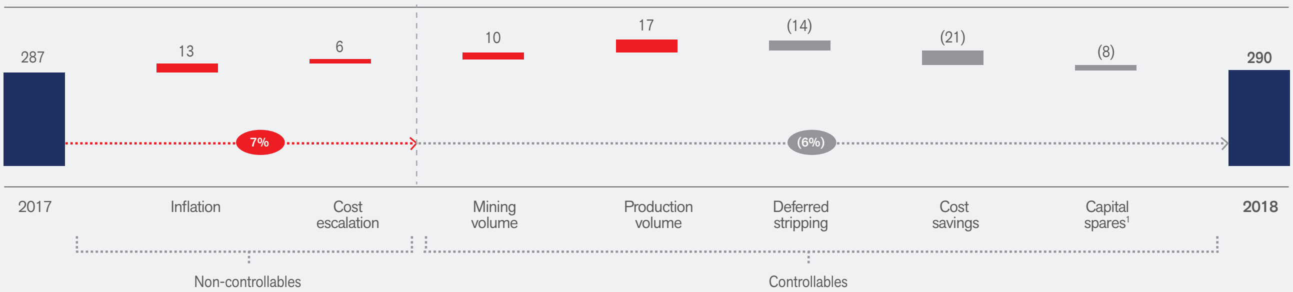
Operating expenditure (Rand million)



[1] Excluding the mineral royalty and impairment reversal in 2017

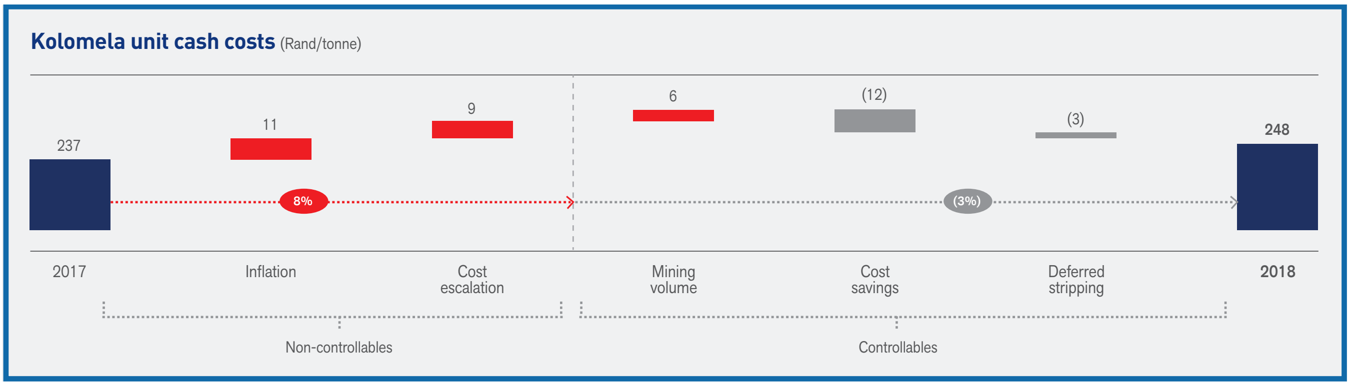
Sishen's unit cash costs increased by 1% to R290/tonne (2017: R287/tonne). The increase was mainly from lower production volumes and higher mining costs, due to the higher stripping ratio of 4.7 (2017: 4.3), CPI-linked inflation of 4.7% and cost escalation related to rising fuel prices. Cost savings of R21/tonne offset inflation and cost escalation costs totalling R19/tonne.

Sishen unit cash costs (Rand/tonne)

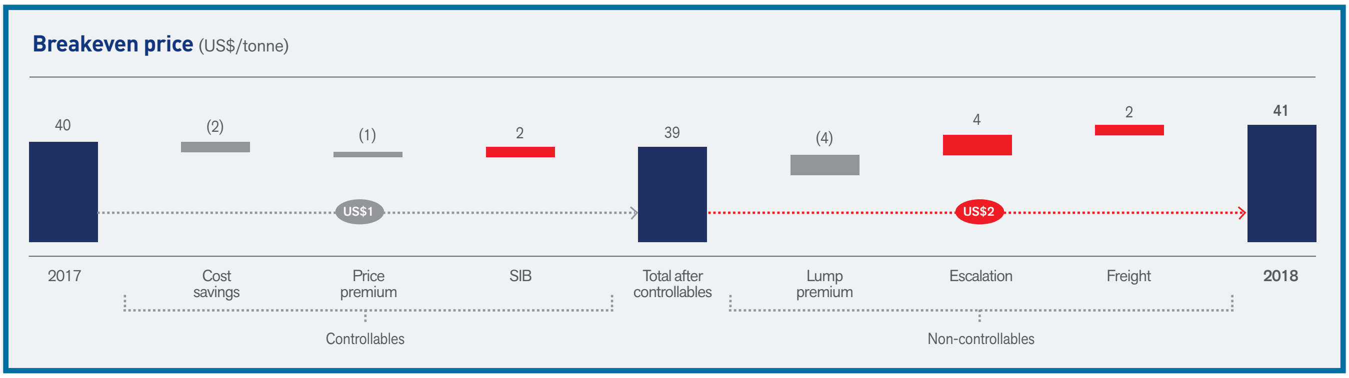


[1] During the year, the group recognised an increased number of capital spares, for which the reconditioning costs incurred met the capitalisation criteria, as property, plant and equipment. These reconditioning activities are anticipated to improve the performance of the equipment beyond their original expectations and this has resulted in the R8/tonne decrease from the prior year.

Kolomela's unit costs increased 5% to R248/tonne (2017: R237/tonne), including cost savings of R163 million. The cost pressures were related to higher mining costs, with waste up 1% to 56.0 Mt, in line with an increase in the stripping ratio to 3.5 (2017: 3.4), as well as the hike in fuel prices.



Break-even price reflects progress made on margin strategy



Kumba's progress on margin enhancement contained the breakeven price at US$41/tonne, resulting in an increase of US$1/tonne in 2018 compared to the US$11/tonne increase in 2017 to US$40/tonne, prior to implementation of the strategy.

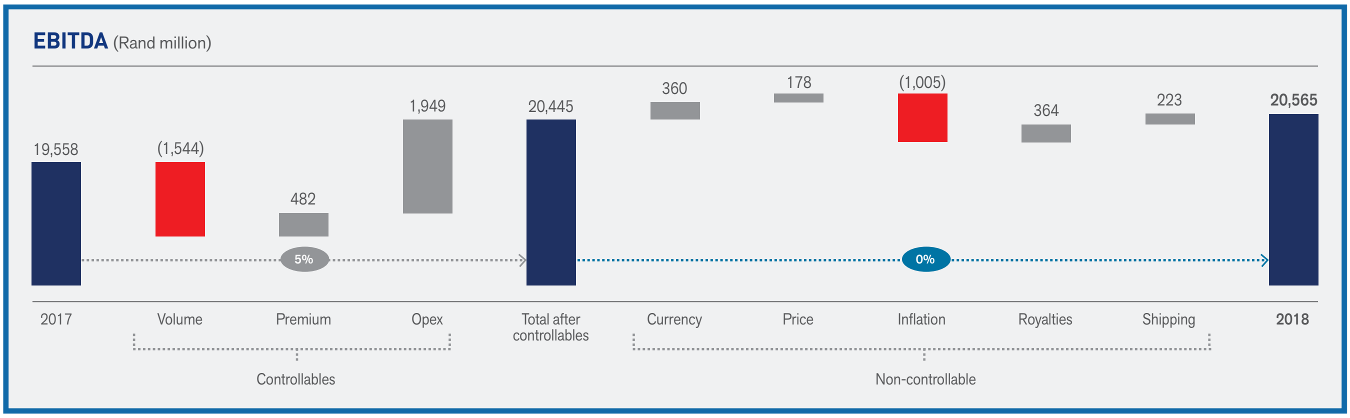
Controllable costs reduced by US$1/tonne as cost savings and price premium achieved due to our enhanced product portfolio offset higher on-mine SIB capex. Non-controllable costs rose by US$2/tonne with the increase in cost escalation driven by an increase in the diesel price of 18% and freight rates of 19%, partially offset by higher lump premium of US$11/tonne (2017: US$6.6/tonne).

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

EBITDA reflects benefit of margin enhancement strategy

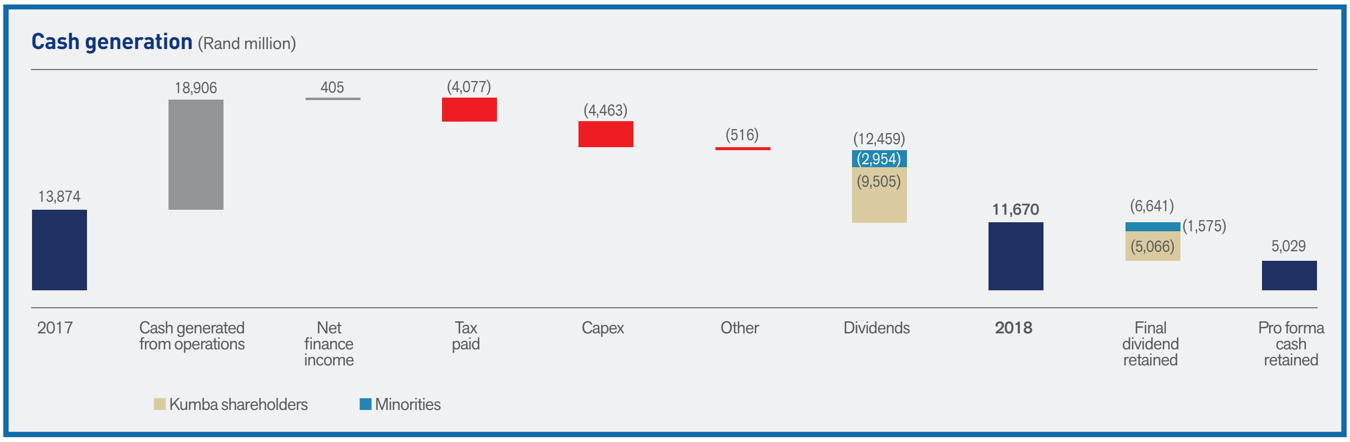
Kumba delivered an EBITDA of R20.6 billion, representing an increase of 5% compared to R19.6 billion in the previous year. Growth was primarily driven by the 1% increase in the average realised FOB export iron ore price to US$72/tonne (2017: US$71/tonne), resulting in premium captured and cost savings realised during the year. The benefit was partially offset by the 4% decrease in total sales volumes of 1.6 Mt, as well as above-inflation cost pressure from higher fuel prices and distribution costs.

Kumba's EBITDA margin increased by 3 percentage points to 45% (2017: 42%), as Kumba continued to deliver on its margin enhancement strategy and increased operational efficiency. The group's mining EBITDA margin improved to 50% (2017: 47%), excluding the net freight profit incurred on shipping operations. Net profit decreased by 22% to R12.6 billion (2017: R16.1 billion), mainly as a result of the impairment reversal of R4.8 billion (before tax and non-controlling interest) in 2017.



FREE CASH FLOW CONTINUED TO SUPPORT SHAREHOLDER RETURNS

Strong balance sheet supports sustained returns

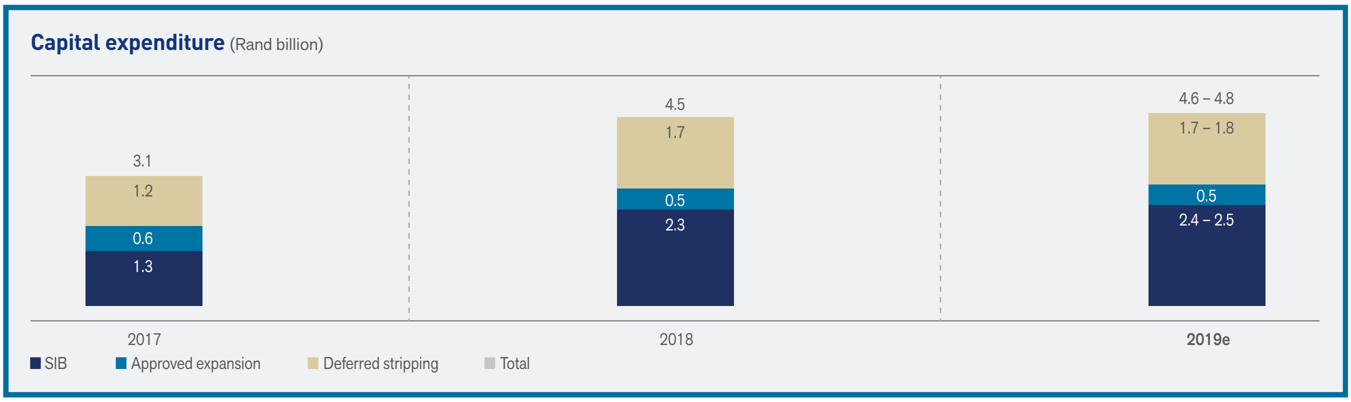


Kumba ended the year with a net cash position of R11.7 billion (2017: R13.9 billion), after cash flow from operations, tax paid, capex and dividends. Cash flow from operations decreased by 16% to R18.9 billion (2017: R22.4 billion), due to higher working capital requirements of R1.8 billion which offset the increase in EBITDA. The increase in working capital largely relates to the higher levels of finished stock of 5.3 Mt (2017: 4.3 Mt), following logistical challenges on the rail line.

Total committed facilities of R12 billion (revolving facility) mature in 2020. Financial guarantees issued in favour of the Department of Mineral Resources (DMR) in respect of environmental closure liabilities were R2.9 billion. The annual revision of closure costs reflected a further shortfall of R585 million in respect of the rehabilitation of Sishen and Kolomela. Guarantees for the shortfall will be issued in due course.

We created stakeholder value by paying income tax of R4.1 billion (2017: R5.9 billion) and mineral royalties of R983 million (2017: R1.2 billion) to government, providing capex of R4.5 billion (2017: R3.1 billion), and distributing dividends to shareholders of R12.5 billion (2017: R6.7 billion).

Capital expenditure supports our strategy



Kumba's capital expenditure for 2018 was R4.5 billion (2017: R3.1 billion). The total spend consisted of the following:

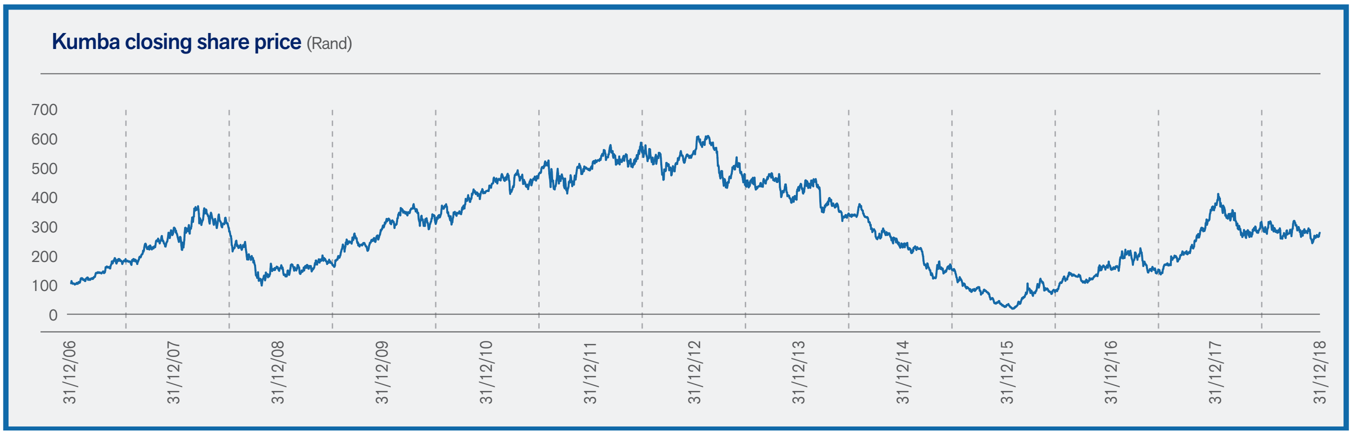
- R2.3 billion from stay-in-business (SIB) activities
- R0.5 billion of expansion capex, largely related to the completion and commissioning of Sishen's second modular plant (R0.2 billion) and the Dingleton relocation project (R0.2 billion)
- R1.7 billion in deferred stripping due to the increase in the stripping ratio at Sishen to 4.7 from 4.3 and at Kolomela to 3.5 from 3.4

Included in SIB capital expenditure is reconditioning or overhauling cost for capital spares, which are components of heavy mining equipment. During the year, Kumba recognised an increased number of capital spares for which the reconditioning cost incurred met the capitalisation criteria for recognition as property, plant and equipment. These reconditioning activities are anticipated to improve the performance of the equipment beyond their original expectations and this has resulted in the recognition of higher SIB expenditure than in prior years.

Stakeholder value created

Kumba has built a strong track record of delivering sustainable returns through the cycle. Our balance sheet remains robust driven by strong cash generation supported by higher realised prices, cost savings and productivity gains. In view of the volatile price environment, currency fluctuations, cost inflationary pressure and the potential for ongoing operational disruption from rail capacity constraints, Kumba remains committed to maintaining a strong balance sheet.

Taking all these factors into account coupled with our dividend policy of a 50 to 75% payout ratio of headline earnings, the Board declared a final cash dividend of R15.73 per share with a total dividend for 2018 at R30.24 per share. This ensures that we remain in a position of strength and that we will be well placed to continue with appropriate, value-creating and disciplined investment in our business.



Annual Financial Statements

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

KEY FINANCIAL RISK FACTORS AFFECTING OUR PERFORMANCE

The primary financial risks to which Kumba is exposed are market, counterparty credit and liquidity risk. These are rigorously monitored by management according to the oversight and risk management framework, while the Risk and Opportunities Committee oversees the process on behalf of the Board. (For further information refer to the review of the Risk and Opportunities Committee on page 36 of the Integrated Report 2018.)

Risk management policy

COMMODITY PRICE

Exposure to future price movements occur as the selling price is based on quoted market prices stipulated in the contract that are provisionally determined between 30 and 180 days after delivery to the customer. Risk is managed through iron ore swaps and futures contracts that enable closer alignment between sales prices and reference prices set by the group. For more detailed information on financial risk management refer to the AFS pages 73 to 78.

EBITDA impact of R520 million per US$1/tonne change in export iron ore price

CURRENCY

For exposure to foreign currency movements it is group policy to use only derivatives for hedging purposes and not to engage in speculative transactions. Hedging is conducted in limited circumstances and in strict compliance with the Company's treasury risk policy.

EBITDA impact of R300 million per R0.10/US$ change in the exchange rate

EXPORT SALES VOLUME

Export sales volumes are exposed to various operational risk factors which are mitigated on a case by case basis. For more details refer to the review of risks and opportunities on page 39 of the Integrated Report 2018.

EBITDA impact of R65 million per 100 kt change in sales volumes

COUNTERPARTY CREDIT

Counterparty credit risk exposure is diversified among high-quality financial institutions with acceptable daily settlement limits. Kumba also relies on letters of credit to limit the risk of financial loss from our customers.

For more information refer to note 33 of AFS

INTEREST RATE

Kumba's policy is to borrow at floating rates and minimise the after-tax cost of debt for the group. Board approval is required for fixed rate debt.

For more information refer to note 33 of AFS

LIQUIDITY

Adequate cash and credit facilities are maintained to meet all short-term obligations and to ensure that the group can meet all known forecast strategic commitments using the appropriate debt instruments.

For more information refer to note 33 of AFS

TAX

Tax risk management forms part of Kumba's overall risk management process and ensures that we comply with applicable tax legislation. It also enables the Company to timeously identify and respond to legislative amendments and new taxes. We seek to maintain a long-term, open, constructive relationship with tax authorities and government in relation to tax matters.

For more information refer to page 52 of the SR

OTHER SPECIFIC ITEMS AND EVENTS DURING THE YEAR

Transfer of Thabazimbi

On 1 November 2018, the employees, assets and liabilities as well as the mining rights and the assumed liabilities of Thabazimbi were transferred at a nominal purchase consideration from SIOC to ArcelorMittal SA. There was no material impact on cash flow.

Changes in estimates to environmental rehabilitation and decommissioning provision

The closure provisions are measured at the present value of the expected future cash flows required to perform the rehabilitation and decommissioning. Estimates and assumptions are employed in determining the amount and timing of the future cash flows and the discount rate.

The life-of-mine plan (LoMP) on which accounting estimates are based only includes proved and probable ore reserves as disclosed in Kumba's 2018 annual ore reserves (and saleable product) and mineral resources statement. The most significant changes in the provisions for 2018 arises from the change in the LoMP as well as the timing of the expected cash flows for both Sishen and Kolomela.

The effect of the change in estimate of the rehabilitation and decommissioning provision, which was applied prospectively from 1 January 2018, is detailed below:

Rand million	**Audited 31 December 2018**
Increase in environmental rehabilitation provision	**414**
Decrease in decommissioning provision	**(21)**
Increase in profit attributable to the owners of Kumba	**227**
Rand per share	
Effect on earnings per share attributable to the owners of Kumba	**0.71**

Taxation

Kumba contributes economic value to the government of South Africa and to the host communities in the Northern Cape with taxes paid through the life-cycle of our operations and across our value chain. Our tax contribution of R6.2 billion for 2018 reflects corporate income tax of R4.1 billion, mineral royalties of R1 billion and indirect taxes of R1.2 billion.

In terms of the Mineral and Petroleum Resources Royalty Act No 28 of 2008 and the Mineral and Petroleum Resources Royalty Administration Act No 29 of 2008, the specified condition for iron ore used to calculate the mineral royalty payable will be deemed to have been extracted at a 61.5% Fe. Kumba extracts iron ore below 61.5% Fe and this requires management to make certain judgements and estimates when determining the gross sales value of the ore extracted at the group's mines.

The Company's tax contribution represents a significant portion of the economic value delivered to the government and our host communities. The following cash payments were made to the jurisdictions in which the group operates:

TOTAL TAX CONTRIBUTION BY CATEGORY

Rm	**2018**	2017
Corporate income tax	**4,078**	5,883
Mineral royalties	**983**	1,160
Payroll tax	**1,093**	980
Skills levy	**42**	37
UIF	**22**	20
Total	**6,218**	8,080

OUTLOOK FOR 2019

New accounting standards

IFRS 16 *Leases* will become effective from 1 January 2019, replacing IAS 17 *Leases*. Transitioning to IFRS 16, based upon the group's current contractual arrangements, is expected to result in the recognition of a lease liability of approximately R400 million to R500 million, and a right of use asset of approximately R350 million to R450 million. The right of use asset will principally relate to rental of properties and mining equipment. The balance represents an adjustment to retained earnings.

Depreciation of the right of use asset and the finance charge representing the unwinding of the discount on the lease liability will be recorded in the statement of profit and loss. The impact of the standard on EBITDA and profit before tax following adoption is not expected to be significant although the presentation of the cost of leases in the statement of profit and loss will change.

External audit firm rotation

The Company has initiated a formal process for the appointment of a new external auditor for the 2020 financial year onwards, taking into account that Deloitte & Touche has been the group's external auditor since inception in 2006. The request for proposals was issued in December 2018 and will be presented to the Audit Committee in April 2019 with finalisation expected in May 2019. It is anticipated that a new external auditor will be recommended to the Board shortly thereafter.

2019 guidance

Our financial guidance for 2019 is set out below. The delivery of these key metrics is subject to the aforementioned key risk factors affecting our performance as described on page 36 of the Integrated Report 2018.

- **Unit cash costs:** guided for Sishen between R315 and R325 per tonne and Kolomela between R265 and R275 per tonne. Costs will remain under pressure as a result of increases in fuel, labour and maintenance costs, as well as higher strip ratios. Our 2019 cost savings target is R700 million; this will be driven by ongoing initiatives such as optimisation of mining and production costs as well as improvements in operational efficiency.

- **Capital expenditure:** range of between R4.6 billion and R4.8 billion, similar to 2018. This includes stay-in-business capital expenditure on our heavy mining equipment fleet and infrastructure upgrade to support production; expansion spend for the finalisation of the Dingleton project; and deferred stripping capitalised.

  Beyond 2019, expansion capital will include our UHDMS technology, currently in feasibility phase, with construction expected to start in 2020. The capex for this is expected to be between R2 billion and R3 billion for the period between 2019 and 2022. Further information will be available once the feasibility study is completed towards the end of 2019.

Shareholders are advised that these forecasts have not been reviewed or reported on by our auditors.

ACKNOWLEDGEMENT

In closing, I would like to acknowledge our finance team for their commitment, hard work and integrity in dealing with the challenges of the past year. In addition to supporting the business to manage costs and capital, a high standard of governance and compliance was maintained, and the quality of financial information prepared for our stakeholders has been world class. I look forward to working with the team in the year ahead as we unlock further potential and create sustainable shareholder value.

Bothwell Mazarura
Chief Financial Officer

15 March 2019

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

for the year ended 31 December 2018

The directors are responsible for the preparation, fair presentation and integrity of the annual financial statements and related financial information of the Kumba Iron Ore Limited Group (the group) as well as Kumba Iron Ore Limited (Kumba or the Company), in accordance with International Financial Reporting Standards (IFRS), the requirements of the Companies Act 71 of 2008 (as amended) of South Africa and the Listings Requirements of the JSE Limited, which include amounts based on judgements and estimates made by management.

The annual financial statements, set out on pages 27 to 102, are based on appropriate accounting policies which have been consistently applied, except for changes in accounting policies as detailed in the notes, and which are supported by reasonable and prudent judgements and estimates, comprise the statement of financial position at 31 December 2018, the statement of profit or loss, the statement of other comprehensive income, the statements of changes in equity and statement of cash flows for the year then ended, the notes to the financial statements, which include a summary of principal accounting policies and other explanatory notes, the directors' report, the Audit Committee report and the Company secretary report.

The directors, primarily through the Audit Committee, meet periodically with the external and internal auditors as well as the executive management to evaluate matters concerning the responsibilities below:
- Maintaining adequate accounting records and an effective system of risk management
- Developing, implementing and maintaining a sound system of internal control relevant to the preparation and fair presentation of these financial statements, that provides reasonable but not absolute assurance against material misstatement or loss, whether owing to fraud or error
- Selecting and applying appropriate accounting policies
- Making accounting estimates that are reasonable in the circumstances
- Safeguarding shareholders' investments and the group's assets
- Preparing the supplementary annexures included in these financial statements

The group's internal auditors independently evaluate the internal controls and coordinate their audit coverage with the external auditors.

The independent external auditors are responsible for reporting on whether the consolidated financial statements and the separate financial statements are fairly presented in accordance with the applicable financial reporting framework. The independent auditor's report to the shareholders of the group and Kumba is set out on pages 24 to 26 of this report.

The external and internal auditors have unrestricted access to all records, property and personnel as well as to the Audit Committee.

The directors acknowledge that they are ultimately responsible for the process of risk management and the system of internal financial control established by the group and place a strong emphasis on maintaining a strong control environment. The directors are not aware of any material breakdown in the functioning of these controls and systems during the year under review. The directors are of the opinion, based on the information and explanations given by management, the internal auditors, the external auditors and the group's risk, compliance and other reporting processes that the risk management processes and system of internal control provide reasonable assurance in all key material aspects that the financial records may be relied upon for the preparation of the annual financial statements.

Having considered the group's major risks, outstanding legal, insurance and taxation issues, an assessment of the solvency and liquidity taking into account the current financial position and existing borrowing facilities as well as the group's financial budgets with their underlying business plans, the directors consider it appropriate that the annual financial statements be prepared on the going-concern basis.

APPROVAL OF GROUP ANNUAL FINANCIAL STATEMENTS AND ANNUAL FINANCIAL STATEMENTS

The group annual financial statements on pages 27 to 87 and 95 to 102 and the Company annual financial statements on pages 88 to 94 of Kumba Iron Ore Limited were approved by the Board of directors on 15 February 2019 and will be presented to the shareholders at the annual general meeting on 10 May 2019. The group and Company annual financial statements are signed on the directors' behalf by:

Dr MSV Gantsho
Chairman

TM Mkhwanazi
Chief Executive

15 February 2019

CERTIFICATE OF THE COMPANY SECRETARY
for the year ended 31 December 2018

I, CD Appollis, in my capacity as Company secretary, confirm that, for the year ended 31 December 2018, Kumba Iron Ore Limited has lodged with the Registrar of Companies all such returns and notices as are required of a public company in terms of the Companies Act 71 of 2008 (as amended) of South Africa, and that all such returns and notices are true, correct and up to date.

CD Appollis
Company Secretary

15 February 2019

DIRECTORS' REPORT
for the year ended 31 December 2018

The directors have pleasure in presenting the annual financial statements of Kumba and the group for the year ended 31 December 2018.

NATURE OF BUSINESS
Kumba was incorporated in South Africa on 16 May 2005 and commenced trading in November 2006 following the unbundling of Kumba from Exxaro Resources Limited (previously Kumba Resources Limited). Subsequent to unbundling, Kumba listed on the JSE Limited (JSE) on 20 November 2006, and since then remains the only pure play iron ore company on the JSE.

Kumba is a mining group of companies focusing on the exploration, extraction, beneficiation, marketing and sale and shipping of iron ore. Kumba produces iron ore in South Africa at Sishen and Kolomela mines in the Northern Cape province.

The Thabazimbi mine, located in Limpopo province, ceased all its operations in 2016. In 2017, Sishen Iron Ore Company Proprietary Limited (SIOC) and ArcelorMittal SA entered into an agreement to transfer Thabazimbi mine to ArcelorMittal SA, subject to the fulfilment of certain conditions precedent. On 12 October 2018, all remaining conditions precedent were either fulfilled or waived. On 1 November 2018, the employees, assets and liabilities as well as the mining rights and the assumed liabilities of Thabazimbi mine were transferred at a nominal purchase consideration from SIOC to Thabazimbi Iron Ore Mine Proprietary Limited, previously ArcelorMittal South Africa Operations Proprietary Limited, a wholly owned subsidiary of ArcelorMittal SA.

The nature of the businesses of the group's subsidiaries, associates and joint ventures is set out in Annexures 1 and 2.

CORPORATE GOVERNANCE
The group subscribes to the Code of Good Corporate Practices and Conduct as contained in the King IV Code on Corporate Governance. The Board has satisfied itself that Kumba has complied in all material aspects with the King Code as well as the JSE Listings Requirements throughout the year under review. The corporate governance report is set out on pages 81 to 99 of the integrated report 2018.

FINANCIAL RESULTS
The financial statements on pages 27 to 102 set out fully the financial position, results of operations and cash flows of the group and Company for the financial year ended 31 December 2018. The financial statements have been prepared under the supervision of BA Mazarura CA(SA), Chief Financial Officer.

Operating results for the year
Summary of the group's key financial results for the year ended 31 December:

Rand million	2018	2017	% increase/ (decrease)
Revenue	**45,725**	46,379	(1)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**20,566**	19,558	5
Cash generated from operations	**18,906**	22,432	(16)

Total revenue decreased by 1% to R45.7 billion compared to R46.4 billion for 2017, mainly as a result of total sales volumes reducing by 4%. This, together with the marginal strengthening of the average Rand/US$ exchange rate to R13.24/US$1 (2017: R13.30/US$1) were partially offset by a 1% increase in the average realised iron ore export price to US$72/tonne (2017: US$71/tonne). Freight rates strengthened by US$2.5/tonne compared to 2017, resulting in a R273 million increase in shipping revenue.

Kumba's higher average achieved free-on-board (FOB) price was driven by higher lump, Fe and market premia, largely offsetting the impact of weaker iron ore index prices in 2018. On average, the Platts 62 index price decreased by US$1.8/tonne to US$69.5/tonne, whilst the achieved lump, Fe and market premia increased by US$5.4/tonne to US$16.7/tonne and freight rates increased by US2.6/tonne to US$14.1/tonne.

Operating expenses, excluding the reversal of the Sishen impairment in 2017, decreased marginally to R29.4 billion compared to R29.8 billion in the prior year, principally as a result of lower production and sales volumes as well as the benefit of cost savings. Cost savings of R976 million from operating efficiency improvements and overhead cost reductions largely offset inflationary pressure on input costs and higher distribution costs. Selling and distribution costs increased by 6% largely due to higher demurrage caused by rail constraints and above inflation increases in Transnet tariffs.

Freight costs of R4.5 billion remained constant year-on-year as 2.2 Mt lower shipping volumes were offset by a US$1.20/tonne higher average Platts freight rate on the Saldanha-Qingdao route. Spot freight rates averaged US$13.00/tonne, a 10% increase from US$11.8/tonne in 2017.

Unit cash costs at Sishen increased by 1% to R290/tonne (2017: R287/tonne). This was primarily as a result of lower production volumes and above inflation mining-related cost escalations including diesel prices, which were partially offset by cost savings. In addition, during the year, the group capitalised an increased number of equipment spares as property, plant and equipment, for which the reconditioning costs incurred met the recognition criteria.

Kolomela mine incurred unit cash costs of R248/tonne (2017: R237/tonne), representing a 5% increase in line with expectations, due to higher mining volumes and above inflationary pressures from higher fuel prices, partially offset by savings on overhead costs. Despite the challenging environment, Kumba produced an EBITDA of R20.6 billion, representing an increase of 5.1% compared to R19.6 billion in the previous year. Growth was primarily driven by the 1% increase in the average realised FOB export iron ore price to US$72/tonne (2017: US$71/tonne) and cost savings of around R1 billion, demonstrating the success of our margin enhancement strategy. The benefit of our strategy, was partially offset by the 4% decrease in total sales volumes and above inflation cost escalation.

Kumba's EBITDA margin increased by 3 percentage points to 45% (2017: 42%) and the mining operating margin improved to 50% (2017: 47%), excluding the net freight profit incurred on shipping operations. Net profit decreased by 22% to R12.6 billion (2017: R16.1 billion, after the 2017 impairment reversal of R4.8 billion before taxation).

Cash flow generated from operations decreased by 16% to R18.9 billion (2017: R22.4 billion), due to higher working capital requirements which offset the increase in EBITDA. The increase in working capital largely relates to the higher finished stock of 5.3 Mt (2017: 4.3 Mt) following logistical challenges on the rail line.

Total committed debt facilities of R12 billion (revolving facility) mature in 2020. Financial guarantees issued in favour of the Department of Mineral Resources (DMR) in respect of environmental closure liabilities were R2.9 billion. The annual revision of closure costs reflected a further shortfall of R586 million in respect of the rehabilitation of the Sishen and Kolomela mines. Guarantees for the shortfall will be issued in due course.

We created stakeholder value by paying income tax of R4.1 billion (2017: R5.9 billion) and mineral royalties of R983 million (2017: R1.2 billion) to government, providing capital expenditure of R4.5 billion (2017: R3.1 billion), and distributing dividends to shareholders of R12.5 billion (2017: R6.7 billion).

FINANCIAL POSITION

Summary of the group's financial position as at 31 December:

Rand million	2018	2017	% increase/ (decrease)
Property, plant and equipment	**37,723**	36,833	2
Working capital (excluding cash and cash equivalent and non-current inventories)	**4,654**	1,825	155
Net cash	**11,670**	13,874	(16)
Net asset value per share (R)	**109.47**	107.95	1

Property, plant and equipment

Capital expenditure of R4.5 billion was incurred: R2.3 billion on SIB activities, R1.7 billion on deferred stripping, and R0.5 billion on expansions, which included R0.2 billion on the Dingleton project and R0.2 billion on the second Sishen modular plant, commissioned in November 2018.

Included in stay-in-business (SIB) capital expenditure is reconditioning or overhauling costs for capital spares, which are components of heavy mining equipment. During the year, the group recognised an increased number of capital spares for which the reconditioning costs incurred met the capitalisation criteria for recognition as property, plant and equipment. These reconditioning activities are anticipated to improve the performance of the equipment beyond their original expectations and this has resulted in the recognition of higher SIB capital expenditure than in prior years. The capitalised costs are depreciated over the expected overhaul intervals of the capital spares.

Working capital

The group's net working capital position remains healthy. The increase in trade receivables of R1.2 billion was mainly due to reduced collections in December 2018, compared to the prior year while total finished stock held at the mines and port increased to 5.3 Mt (2017: 4.3 Mt) owing to the impact of rail constrains and single loading of vessels resulting from the scheduled refurbishment of the shiploader.

Net cash

Kumba ended the year with a net cash position of R11.7 billion (2017: R13.9 billion).

ACCOUNTING POLICIES

A number of amended accounting standards were effective for the first time for the financial year beginning on or after 1 January 2018. None had a material impact on the group. Refer to notes 6 and 10 of the financial statements.

SHARE CAPITAL

Authorised capital

The Company's authorised share capital of 500,000,000 shares remained unchanged during the year.

DIRECTORS' REPORT CONTINUED
for the year ended 31 December 2018

SHARE MOVEMENTS

Rand million	2018	2017
Balance at beginning of year	54	114
Net movement in treasury shares under employee share incentive schemes	39	(60)
– Purchase of treasury shares under employee share incentive schemes	112	61
– Shares issued to employees under employee share incentive schemes	(73)	(121)
Share capital and share premium	93	54

The group acquired 395,399 (2017: 284,194) of its own shares through purchases on the JSE during the year.

Unissued shares
The directors are authorised to issue unissued shares until the next annual general meeting. Shareholders will be asked to extend the authority of the directors to control the unissued shares of the Company at the forthcoming annual general meeting, up to a maximum of 5% of the issued capital.

DIVIDENDS
A new dividend policy was announced on 24 July 2018. The dividend policy is based on a more definitive target payout ratio that demonstrates the prioritisation of sustainable shareholder returns through the cycle and disciplined capital allocation following the continued success of our strategy in driving operational and margin improvement, as well as our ability to generate cash sustainably, supported by a clearer path to life extension.

The new dividend policy targets a dividend range of between 50% and 75% of headline earnings. Along with prioritising shareholder returns in allocating capital, our aim is to maintain a flexible capital structure and continue to protect the balance sheet from market volatility, as well as to ensure an appropriate level of capital is allocated to life extension projects.

An interim cash dividend of R14.51 per share was paid on 20 August 2018, which consisted of R6.98 which represented 75% of headline earnings in accordance with the new dividend policy and a once-off top-up cash dividend of R7.53 per share to reset the balance sheet net cash position. A final cash dividend of R15.73 per share was declared on 15 February 2019 from profits accrued during the financial year ended 31 December 2018. The total cash dividend for the year amounted to R9.7 billion, R30.24 per share.

The total cash flow of the final cash dividend of R15.73 per share, payable on 11 March 2019, is R5.1 billion for Kumba. The Board of directors is satisfied that the capital remaining after payment of the final dividend is sufficient to support the current operations and to facilitate future development of the business.

SUBSIDIARIES, JOINT ARRANGEMENTS AND ASSOCIATES
Full particulars of the group's investment in subsidiaries, associates and joint arrangements are set out in annexures 1 and 2.

EQUITY COMPENSATION PLANS
Refer to the detailed remuneration report on pages 100 to 127 of the integrated report 2018, note 21 'Equity-settled share-based payment reserve', and Annexure 3 of the group annual financial statements for a detailed discussion and analysis of movements in the group's various equity compensation plans available to executive directors and senior employees.

SEGMENT RESULTS
Refer to note 1 for a detailed segmental analysis of the group's operating results for the year ended and financial position as at 31 December 2018.

HOLDING COMPANY AND RELATED PARTIES
Anglo American plc is the group's ultimate holding company. Until April 2018, the interest in the group was held through a 69.71% holding by Anglo South Africa Capital Proprietary Limited (2017: 69.71%). In April 2018, Anglo South Africa Proprietary Limited acquired the interest in the group from Anglo South Africa Capital Proprietary Limited.

The analysis of ordinary shareholders is given on pages 103 and 104.

EVENTS AFTER THE REPORTING DATE
Refer to note 31 for a detailed description of events after the reporting period for the year ended 31 December 2018. The directors are not aware of any other matters or circumstances arising since the end of the year and up to the date of this report, not otherwise dealt with in this report.

CONTINGENT LIABILITIES AND GUARANTEES
Contingent liabilities
On 29 June 2018, the South African Revenue Service (SARS) issued the group with additional income tax assessments relating to a tax audit on the deductibility of certain expenditure incurred, covering the 2012 to 2014 years of assessment. The group objected against these assessments after consultation with external tax and legal advisers. On 11 December 2018, SARS advised that it has disallowed the objection. Kumba submitted an appeal against this outcome on 21 February 2019. Based on the external legal and tax advice, the group believes that these matters have been appropriately treated in the results for the year ended 31 December 2018.

There were no other contingent liabilities at 31 December 2018.

Guarantees

The total guarantees issued in favour of the DMR in respect of the group's environmental closure liabilities at 31 December 2018 were R2.9 billion (2017: R2.8 billion). Included in this amount are financial guarantees for the environmental rehabilitation and decommissioning obligations of the group to the DMR in respect of the Thabazimbi mine of R439 million (2017: R439 million). ArcelorMittal SA has guaranteed R439 million of this amount by means of bank guarantees issued in favour of SIOC. The relevant parties are in the process of exchanging the Thabazimbi guarantees as part of the sale transaction (refer to note 19).

As a result of the annual revision of closure costs, a shortfall of R586 million arose. Guarantees in respect of the shortfall will be issued in due course.

REGULATORY UPDATE

Mining Charter

Kumba welcomes the gazetting of Mining Charter 2018 by the Minister of Mineral Resources on 27 September 2018.

The Mining Charter 2018 is a significant improvement on the draft 2017 and 2018 Mining Charters and deals in a more constructive way with numerous issues that had proven to be challenging under the 2010 Charter. We also greatly appreciate the extensive efforts made by the Minister and his team to engage with and take on board the feedback of numerous stakeholder groups in finalising this Charter.

In its submission to the DMR on 27 August 2018, Kumba presented a number of proposals that we believe would assist in achieving greater competitiveness, investment and growth for the mining industry.

While we are still in the process of reviewing and undertaking a full assessment of the implications of the new charter, we welcome certain improvements and points of clarity that have been incorporated.

These include:
- no additional ownership requirements for existing mining rights
- the requirement for the 1% EBITDA trickle dividend has been removed
- the inclusion of an equity equivalent ownership structure for communities
- the removal of the "free carried interest" shareholding requirement for community and employee share ownership schemes
- provisions regarding prospecting rights have been withdrawn
- the foreign supplier contribution provision has been removed

However, we do still have a few significant concerns that we believe may continue to affect the sustainability of the mining industry in South Africa.

These include, but are not limited to:
- continued regulatory uncertainty arising from the recent favourable decision of the High Court in the Minerals Council of South Africa's application for a declaratory order as to various issues pertaining to the status of the Mining Charter
- application of the Charter (designed for mining) to licences granted under the Precious Metals Act and the Diamonds Act, some of which must be renewed annually
- the provisions suggesting that new and further BEE ownership transactions will need to be concluded at the point of renewal of a mining right

Furthermore, we are concerned that Mining Charter 2018 will, in certain respects, be difficult to implement legally and practically, and that may have unintended adverse consequences for the industry.

A further amendment to the Mining Charter of 2018 was gazetted in December 2018. This amendment has clarified that our first reports as to progress with our Charter initiatives under the Mining Charter 2018 will be due in March 2020 and this is a welcome development.

Kumba has consistently affirmed its support for the government's national transformation objectives in relation to the mining industry and has consistently acknowledged its role in promoting transformation in South Africa. Correspondingly, Anglo American has a longstanding track record of driving and supporting sustainable transformation in the mining industry, and we are certainly committed to continuing that journey.

Mineral and Petroleum Resources Development Act (MPRDA)

On 24 August 2018, the Minister of Mineral Resources announced the withdrawal of the MPRDA Amendment Bill. As a result, all amendments that had previously been proposed now fall away, bringing certainty to mining regulation.

Sishen consolidated mining right granted

Sishen's application to extend the mining right to include the Dingleton properties was granted on 25 June 2017 and notarially executed on 29 June 2018. Mining operations in this area will only commence once the required environmental authorisation has been approved, which is expected soon. The grant allows Sishen mine to expand its current mining operations within the adjacent Dingleton area.

Kolomela consolidated mining right granted

The section 102 application to amend the Kolomela mining right and the mining work programme to include Heuningkranz and portion 1 of Langverwacht was granted on 14 October 2018. The environmental authorisation was approved on 7 November 2018. The grant allows Kolomela mine to expand its current mining operations within the adjacent Heuningkranz area.

Thabazimbi transfer to ArcelorMittal SA

On 1 November 2018, the employees, assets and liabilities as well as the mining rights and the assumed liabilities for the mine were transferred at a nominal purchase consideration from Sishen Iron Ore Company Proprietary Limited to Thabazimbi Iron Ore Mine Proprietary Limited, previously ArcelorMittal South Africa Operations Proprietary Limited (a wholly owned subsidiary of ArcelorMittal South Africa).

DIRECTORS' REPORT CONTINUED
for the year ended 31 December 2018

COMPANY SECRETARY
The Company secretary of Kumba is Ms CD Appollis. The contact details of the Company secretary are set out on page 105. Her abridged curriculum vitae is available for inspection at the Company's registered office.

DIRECTORS
The names of the directors who were in office during the year and at the date of this report are set out on pages 78 and 79 of the integrated report 2018. The remuneration and fees of directors as well as the directors' beneficial interest in Kumba are set out in note 34 to the consolidated financial statements.

The following changes to the Board were announced during the 2018 financial year:
- Allen Morgan stepped down as an independent non-executive director and chairperson of the Remuneration Committee, with effect from 11 May 2018
- Terence Goodlace was appointed as lead independent non-executive director. Mr Goodlace stepped down as the chairman of the Risk and Opportunities Committee and remains a member of the committee
- Dolly Mokgatle was appointed as the chairman of the Risk and Opportunities Committee. Mrs Mokgatle stepped down as the chairperson of the Social, Ethics and Transformation Committee but remained a member of the committee
- Buyelwa Sonjica was appointed as the chairperson of the Social, Ethics and Transformation Committee
- Ntombi Langa-Royds was appointed as the chairperson of the Human Resources and Remuneration Committee, following Mr Morgan's retirement from the Board and as the chairman of the committee

PRESCRIBED OFFICERS
The names of the prescribed officers who served during the year and as at the date of this report are set out on page 80 of the integrated report 2018. The remuneration and fees of the prescribed officers are set out in note 34 to the consolidated financial statements. Although Timo Smit is a prescribed officer of Kumba as a member of the Executive Committee (Exco), he is employed by Kumba Singapore Pte and as such, his remuneration is disclosed in the table on page 79. Refer to page 79 of the 2018 financial statements for details of prescribed officers who resigned or were appointed during the year.

AUDITORS
Deloitte & Touche was appointed as the auditor of Kumba and its subsidiaries from inception on 1 November 2006 and continued in office for the year ended 31 December 2018. At the annual general meeting on 10 May 2019, shareholders will be requested to reappoint Deloitte & Touche as auditor of Kumba for the 2019 financial year.

SPECIAL RESOLUTIONS
On 11 May 2018, the shareholders of Kumba resolved the following:
(1) In terms of the Listings Requirements of the JSE, the directors are authorised by way of a general authority to issue the authorised but unissued ordinary shares of one cent each in the capital of the Company for cash, as and when suitable opportunities arise, subject to the MoI of the Company, and the Companies Act
(2) In terms of sections 66(8) and 66(9) of the Companies Act and on recommendation of the Human Resources and Remuneration Committee, the Company is authorised to remunerate its non-executive directors for their services as directors and/or pay any fees related thereto as detailed in the following table, which reflects that the directors' fees be increased by 5.50% (exclusive of Value-Added Tax (VAT)), provided that the aforementioned authority to remunerate directors shall be valid until the fourteenth annual general meeting of the Company in 2020
(3) The chairman's fees be increased by 7.50% (exclusive of VAT), provided that the aforementioned authority to remunerate directors shall be valid until the fourteenth annual general meeting of the Company in 2020. The additional 2% incremental increase is in recognition of the multiple capacity role the chairman plays across various sub-committees, without additional remuneration
(4) The Board of directors of the Company may, subject to compliance with the requirements of the Company's MoI, the Companies Act, and the Listings Requirements of the JSE, each as presently constituted and as amended from time to time, authorise the Company to provide direct or indirect financial assistance as contemplated in section 44 and/or section 45 of the Companies Act, by way of loan, guarantee, the provision of security or otherwise
(5) The Board of directors of the Company is authorised, by a way of a renewable general authority, to approve the purchase by the Company or by any of its subsidiaries of any of the shares issued by the Company, upon such terms and conditions and in such amounts as the Board of directors may from time to time determine, but subject to the provisions of sections 46 and 48 of the Companies Act, the MoI of the Company, the Listings Requirements of the JSE and the requirements of any other stock exchange on which the shares of the Company may be quoted or listed

On 10 July 2018, the shareholders of Kumba resolved the following:
(1) The employee share ownership scheme proposed by SIOC, which, if implemented, will result in the ESOP Trust purchasing Kumba shares on the secondary market, from time to time, to be held for the benefit of the ESOP beneficiaries
(2) In terms of sections 66(8) and 66(9) of the Companies Act and on recommendation of the Human Resources and Remuneration Committee, the Company is authorised to remunerate its lead non-executive director for his/her services as LID in the amount of R1.1million (exclusive of VAT), provided that the aforementioned authority to remunerate the LID shall be valid until the fourteenth annual general meeting of the Company in 2020

GOING CONCERN STATEMENT
The directors have reviewed the group's and the Company's financial budgets with their underlying business plans. In light of the current financial position and existing borrowing facilities, they consider it appropriate that the annual financial statements of the group and Company be prepared on the going-concern basis.

REPORT OF THE AUDIT COMMITTEE
for the year ended 31 December 2018

INTRODUCTION
The Audit Committee (the Committee) is pleased to present its report for the financial year ended 31 December 2018 as recommended by the King Code, the JSE Listings Requirements and the Companies Act. The Committee is constituted as a statutory committee of the Board.

The Committee has terms of reference in place, which regulate both its statutory duties and those assigned to it by the Board. The terms of reference were reviewed, updated and approved in February 2018, taking into account material changes to the JSE Listings Requirements during the year under review and ensuring that the principles of the King Code were adequately entrenched therein.

ROLE AND RESPONSIBILITIES
The mandate of the Committee, which in certain instances operates in conjunction with the Risk Committee and the Social, Ethics and Transformation Committee, is as follows:
- Promoting and reporting upon the overall effectiveness of the Company's system of internal controls
- Overseeing the mandates of, and ensuring coordination between the activities of internal and external audit
- Satisfying the Board that material financial risks have been identified and are being effectively managed and monitored
- Assessing the impact of the general control environment on the statutory audit, and reporting to executive management any areas of perceived control weaknesses
- Reviewing legal and regulatory matters that could have a significant impact on the Company's financial statements
- Monitoring the integrity of the Company's integrated reporting process
- Monitoring compliance with the Company's business integrity policy and overseeing the management of ethics within the organisation
- Annually reviewing the Company's finance function and to ensure that the Company has established appropriate financial reporting procedures and that those procedures are operating effectively
- Annually reviewing the appropriateness of the expertise and experience of the Chief Financial Officer; and
- Annually reviewing the Committee's terms of reference and making recommendations to the Board in terms of ensuring its continued effectiveness

COMPOSITION
The Audit Committee, appointed by the Board and approved by the shareholders in respect of the financial year ended 31 December 2018, comprised the following independent non-executive directors, all of whom have the requisite financial skills, business acumen and experience to fulfil the Committee's duties:
- SS Ntsaluba (Chairman)
- MS Bomela
- TP Goodlace
- DD Mokgatle
- AJ Morgan *

* Mr AJ Morgan resigned from the Committee with effect from 11 May 2018 following his resignation from the Board.

Brief biographies of the Committee members are available on the Company's website. During 2018, the members of the Committee were nominated by the Board for re-election and all members, having availed themselves for re-election by the shareholders at the 2018 annual general meeting, were re-elected accordingly, except AJ Morgan who had resigned,.

ATTENDEES AT COMMITTEE MEETINGS
In addition to the Committee members, the Chief Executive, Chief Financial Officer, Risk Manager, Compliance Officer and heads of internal audit and external audit attend meetings of the Committee by invitation.

The Chairman of the Committee meets separately with management, and internal and external auditors prior to committee meetings. Besides the pre-meetings, the Committee meets separately with internal and external auditors at least once a year.

REPORT OF THE AUDIT COMMITTEE CONTINUED
for the year ended 31 December 2018

COMMITTEE MEETING ATTENDANCE
During the year under review the Committee met five times. A special meeting was held to focus on the sign-off of the reporting suite. Attendance at meetings held during the year is presented in the following table:

	Meeting date					
Member	**7/2/2018**	**9/05/2018**	**18/07/2018**	**16/10/2018**	**28/11/2018**	**Number of meetings attended**
SS Ntsaluba (Chairman)	✓	✓	✓	✓	✓	**5/5**
MS Bomela	✓	✓	A	✓	A	**3/5**
DD Mokgatle	✓	✓	✓	✓	✓	**5/5**
AJ Morgan	✓	✓	R	R	R	**2/2**
TP Goodlace	✓	✓	✓	✓	✓	**5/5**

✓ Indicates attendance
A Apology
R Resigned on 11 May 2018

DISCHARGE OF DUTIES FOR THE YEAR UNDER REVIEW
The Committee has effectively discharged the following of its duties during the year under review:

Financial statements and accounting practices
The Committee reviewed the accounting policies and the annual financial statements of the Company for the year ended 31 December 2018, and ensured that these were compliant with the provisions of the Companies Act, IFRS and the JSE Listings Requirements. This review culminated in a recommendation to the Board for the approval of the financial statements.

The Committee also reviewed the processes in place for dealing with concerns or complaints in respect of accounting policies, internal audit, the auditing or content of annual financial statements and internal financial controls. The Committee can hereby confirm that there were no substantive complaints during the year under review.

The Committee reviewed the group's significant accounting matters and recommended the approval thereof by the Board which included:
- Liabilities for environmental rehabilitation
- Life-of-mine estimates

The above mentioned matters were discussed with management and the external auditor. The Committee also reviewed and recommended the existing debt facilities and compliance with the debt covenants in the context of the group's funding requirements, for approval by the Board.

(a) Liabilities for environmental rehabilitation

A comprehensive review of the provision for environmental provision was conducted, incorporating a detailed review of the immediate mine closure obligations for Sishen mine. Management reported to the Committee the procedures undertaken to determine the financial provision.

The Committee reviewed management's assumptions used for the assessment of the financial provision for environmental rehabilitation and was satisfied that it was appropriately performed.

The external auditor engaged professional environmental experts to audit the immediate mine closure obligations and based on the audit work performed, no misstatements were reported on this matter.

(b) Life-of-mine estimates

Management performed a detailed review of the life-of-mine plans and provided details of the key assumptions applied in the estimates, including estimates for resources and reserves. Management confirmed that the latest estimates were correctly applied to determine the relevant financial information included in the financial statements.

The Committee interrogated management's key assumptions used in the life-of-mine plans to understand the impact on the financial statements as a whole and was satisfied with management's review.

The external auditor engaged their in-house technical mining experts to conduct a review of the mine plans to assess their overall reasonableness, and compliance with mineral reporting guidelines. Furthermore, the auditor confirmed that the latest life-of-mine estimates were correctly applied in the determination of the relevant financial information included in the financial statements, calculated with reference to the life-of-mine estimates.

External auditors

The Committee has considered and satisfied itself with the independence and objectivity of Deloitte & Touche and Ms Nita Ranchod in their respective capacities as the appointed external audit firm and lead audit partner. The Committee also ensured that the scope of non-audit services rendered did not impair their independence. The Committee has satisfied itself that the external auditor and lead audit partner are both accredited on the JSE's list of auditors and advisers. The Committee therefore recommended the reappointment of the external auditors and the reappointment of the designated auditor at the 2018 annual general meeting.

Independence of external auditors

The quality of the external audit process was reviewed and the Committee concluded that it was satisfactory. This was confirmed by the most recent Independent Regulatory Board for Auditors' (IRBA) inspection result as well as Deloitte & Touche's internal quality control results. The Committee also evaluated the external auditor's financial stability and reputation, and the engagement team's independence, competency, capacity, and focus on risks.

The Committee approved the non-audit-related services performed by the external auditor during the 2018 year and determined the external auditor's terms of engagement and fees for the year under review. To safeguard the objectivity and independence of the external auditor, the Company revised its External Auditor Independence Policy, available at the Company's registered office and on the Company's website, which provides guidance on the formal procedure to be followed when the external auditor is considered for non-audit services to ensure the independence of the audit firm and the auditor is not breached. Under the policy, the external auditors are not permitted to perform any work that they may subsequently need to audit or which might either create a conflict of interest or affect the auditors' objectivity and independence. Non-audit services are generally limited to assignments that are closely related to the annual audit or where the work is of such a nature that a detailed understanding of the group is required. Certain non-audit services require prior approval of the Committee while others are prohibited.

Fees for audit-related services and non-audit services incurred during the year amounted to R9 million and R0.4 million respectively (2017: R9 million and R3 million respectively).

There have not been any significant changes in management which may mitigate the attendant risk of familiarity between the external audit and management. Further, Deloitte & Touche confirmed in writing that their independence has not been impaired.

Rotation of designated auditor

Deloitte & Touche has been the auditor of the Company since inception in 2006 and Ms Nita Ranchod was appointed in 2018, following the rotation of Mr Sebastian Carter. As required by section 92 of the Companies Act, the lead audit partner is required to be rotated every five years. Mr Sebastian Carter had been the lead audit partner for five years and was therefore due for rotation at the conclusion of the audit of the 2017 financial statements. The Audit Committee evaluated the independence, experience and effectiveness of both Deloitte & Touche and Ms Nita Ranchod and concluded that both the firm and the individual designated auditor were independent of the Company in accordance with section 94(8) of the Companies Act. In compliance with the JSE Listings Requirements (paragraph 3.84(h)(iii)), the Audit Committee obtained and considered all information listed in paragraph 22.15(h) of the Listings Requirements of the JSE in its assessment of the suitability of Deloitte & Touche, as well as Ms Nita Ranchod for reappointment and appointment respectively.

REPORT OF THE AUDIT COMMITTEE CONTINUED
for the year ended 31 December 2018

Rotation of audit firm

The Company has initiated a formal process for the appointment of a new external auditor for the 2020 financial year onwards, taking into account that Deloitte & Touche has been the group's external auditor since inception in 2006. During 2018, several planning steps were completed, including:

- inviting a number of audit firms to confirm their willingness to participate in the audit tender
- agreeing detailed selection criteria for the evaluation of the audit firms
- interviewing and selecting potential lead audit partners
- approving the request for proposal to shortlist audit firms

The tender process will culminate in a written submission and oral presentation to the Committee in April 2019.

The process is expected to be finalised by May 2019.

Internal audit

The group's internal audit function is fulfilled by Anglo American Business Assurance Services (ABAS) and it provides the Board with positive assurance on the key areas of the group's internal financial controls. ABAS and ABAS's Head of risk and assurance do not administratively report to Kumba and therefore the internal audit function is considered independent.

Internal audit provides assurance that the Company operates in a responsibly governed manner by performing the following functions:

- objectively assuring effectiveness of the risk assurance and internal control frameworks
- analysing and assessing business processes and associated controls
- reporting audit findings and recommendations to management and to the Committee
- providing a written report on the assessment of the internal control environment
- providing written, positive assurance on internal financial controls

The internal audit plan for the 2018 financial year which reflected a risk-based approach focusing on financial and operational processes was approved in 2017. The results of the 2018 reviews conducted on the internal controls were reported to the Committee. The Committee considered and was satisfied with the effectiveness of the internal audit function and monitored adherence to the annual internal audit plan.

Both the internal and external auditors have unrestricted access to the Audit Committee, the Audit Committee Chairman and the Chairman of the Board, ensuring that both internal and external auditors are able to maintain their independence.

Internal financial controls

The Committee reviewed the reports of both the internal and external auditors, in respect of audits conducted on the internal control environment. The Committee also took note of any concerns arising from these audits and considered the appropriateness of the responses from management.

Based on the extent of the audit work carried out by both the internal and external auditors, nothing was brought to the Committee's attention which would suggest a material breakdown of any internal control system. The Committee was therefore satisfied that the internal financial control environment continued to function effectively.

Combined assurance and risk management oversight

The Audit Committee has reviewed the Company's combined assurance model and has satisfied itself as to its completeness. The Committee is also satisfied that the Company has augmented the assurance coverage obtained from management, and from external and internal assurance providers, in accordance with an appropriate combined assurance model.

Although the Board has a Risk Committee to assist it with the discharge of its duties with regard to the integrated risk management process, the Audit Committee has an interest in risk management as a result of its responsibility for internal controls. The Committee has therefore also satisfied itself that the level of unmitigated risks, both individually and in totality, are within the risk appetite of the Company, and that there is sufficient assurance provided to manage risks and the control environment through both internal and external assurance providers.

Integrated reporting

The Audit Committee evaluated the integrated report for the year under review and assessed its consistency with operational and other information known to the Committee. The report was prepared using appropriate reporting standards, which conform to the requirements of the King Code and the JSE Listings Requirements.

In conjunction with the Social, Ethics and Transformation Committee, the Committee also reviewed the integrity of the narrative in the sustainability report to ensure that it was reliable and concluded that it did not conflict with the financial information.

The Committee therefore recommended the integrated report and the sustainability report for 2018 for approval to the Board. The Board will approve the reports which will be available and open for discussion at the 2019 annual general meeting.

Solvency and liquidity review

The Committee is satisfied that the Board has adequately performed solvency and liquidity tests on the Company in terms of section 4 of the Companies Act, as and when required during the year under review.

Going-concern status

The Committee considered the going-concern status of the group and the Company on the basis of the review of the annual financial statements and other relevant information available to it and recommended such going-concern status for adoption by the Board.

Chief Financial Officer and finance function

The Committee reviewed the performance of the Chief Financial Officer, Mr BA Mazarura, and was satisfied that he has the necessary expertise and experience to fulfil the role and that he had performed appropriately during the year under review.

Furthermore, the Committee further reviewed the appropriateness of the financial reporting procedures and that these were implemented during the year. The Committee considered and has satisfied itself of the appropriateness of the expertise and experience of the finance function and adequacy of resources employed in this function.

Legal and regulatory matters

Updates on the legal matters are provided to the Committee at each meeting. The Committee considers the implications of these matters on fair presentation.

Business integrity and ethics

The Committee has an oversight of the Company's ethics function, including adherence to the Company's Code of Business Conduct and Ethics and other procedures established by the Company with regard to ethical behaviour, avoidance of conflicts of interest, and other related matters.

Ore reserves and mineral resources

The Company's ore reserves and mineral resources and changes thereto are reviewed annually by the Committee.

The Committee is satisfied that, in respect of the period under review, it has conducted its affairs and discharged its duties and responsibilities in accordance with its terms of reference, the JSE Listings Requirements, the Companies Act and the King Code on Corporate Governance.

SS Ntsaluba
Chairman of the Audit Committee

15 February 2019

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF KUMBA IRON ORE LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Kumba Iron Ore Limited and its subsidiaries (the group) set out on pages 27 to 102, which comprise the consolidated and separate statement of financial position as at 31 December 2018, and the consolidated and separate statement of profit or loss, consolidated statement of other comprehensive income, the consolidated and separate statement of changes in equity and the consolidated and separate statement of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 December 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters identified below apply only to the consolidated financial statements as there were no key audit matters identified for the separate financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
COMPLETENESS AND ACCURACY OF ENVIRONMENTAL REHABILITATION AND DECOMMISSIONING PROVISIONS	
Significant judgement is required by the directors in determining the provision for environmental rehabilitation and restoration costs disclosed in note 8, which is determined based on the significant assumptions in determining the estimated future costs of restoration and rehabilitation and the discounted net present value of these costs. The rehabilitation and decommissioning provisions are based on Kumba's mine closure plans as this is management's current view of the best closure strategy and associated costs. Due to the significance of the balance to the financial statements as a whole, combined with the judgements and assumptions associated with determining the value of the provision for environmental rehabilitation and restoration costs, this is considered to be a key audit matter.	We assessed the competence, capabilities and objectivity of the independent experts who determined the Sishen and Kolomela environmental rehabilitation and restoration cost estimates. In addition, we performed procedures including the following: • Engaged our internal environmental specialists to conduct a detailed review of the latest closure plans for Sishen and Kolomela • Tested the design and implementation of relevant controls • Assessed the key assumptions and judgements used in the underlying calculations of the rehabilitation provisions for reasonableness • Assessed the final rehabilitation provision calculation for arithmetic accuracy to confirm the accuracy of the amount recognised based on the underlying estimates to the calculation • Engaged an expert to recompute the discount rate applied to discount the underlying cash flows to determine the rehabilitation provision • Reviewed the adequacy of the disclosures with respect to the assumptions used in the determination of the rehabilitation provision as detailed in note 8 to the consolidated financial statements

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
LIFE-OF-MINE	
The calculation of the life-of-mine (LOM) is complex and involves specialised geological knowledge. The LOM is based on estimated available reserves. Any changes to the reserves and resources will impact the LOM which could impact the financial information that utilises the LOM estimate, for example, the calculation of depreciation and amortisation on pit and ore processing assets. On this basis, we consider the LOM estimates to be a key audit matter.	We assessed the competence, capabilities and objectivity of the internal experts, and verified their qualifications. We performed procedures including the following: • tested the design and implementation of controls around the approval process for the LOM estimate • engaged our internal experts to review the current Sishen and Kolomela mine plans. The technical review performed included the following procedures: – reviewed the modifying factors in conversion of Mineral Resources to Mineral Reserves for reasonability – reviewed the appropriateness of the mining methodology, mine plan, mine schedule, LOM plan and technical merits of the production schedule – performed a retrospective review of key assumptions used in the model by comparing them to actual achieved metrics from previous years – assessed the mathematical accuracy of the LOM models

Other information

The directors are responsible for the other information. The other information comprises the directors' report, Audit Committee's report and Company secretary's certificate, as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report and the integrated report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless the directors either intend to liquidate the group and/or the Company to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

INDEPENDENT AUDITOR'S REPORT CONTINUED

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group and Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and/or the Company to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements
In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Kumba Iron Ore Limited for 13 years.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Nita Ranchod
Partner

15 February 2019

Deloitte & Touche
Deloitte Place
The Woodlands, Woodlands drive, Woodmead, Sandton

PRINCIPAL ACCOUNTING POLICIES
for the year ended 31 December 2018

1. GENERAL INFORMATION

Kumba is the holding company of the Kumba group. Kumba is a mining group of companies focusing on the exploration, extraction, beneficiation, marketing, sale and shipping of iron ore. Kumba produces iron ore at Sishen and Kolomela mines in the Northern Cape province. Until 2015, Kumba also produced iron ore from Thabazimbi mine in Limpopo province. The Thabazimbi mine was transferred from SIOC to Thabazimbi Iron Ore Mine Proprietary Limited, previously ArcelorMittal South Africa Operations Proprietary Limited (a wholly owned subsidiary of ArcelorMittal SA) on 1 November 2018.

Kumba is a public company listed on the JSE Limited and is incorporated and domiciled in the Republic of South Africa.

2. BASIS OF PREPARATION

2.1 Accounting framework

The consolidated and Company financial statements are prepared in accordance with the IFRS and International Accounting Standards (IAS) as issued by the International Accounting Standards Board (IASB) and IFRIC interpretations, the South African Companies Act, No. 71 of 2008 (as amended), the Listings Requirements of the JSE Limited, and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Guides as issued by the Financial Reporting Council. The financial statements are authorised for issue by the Company's Board of directors.

The financial statements have been prepared in accordance with the historical cost convention, except for certain financial instruments, share-based payments, discontinued operations held for sale and biological assets which are measured at fair value.

The consolidated and separate financial statements are prepared on the basis that the group and Company will continue to be a going concern.

The following principal accounting policies and methods of computation were applied by the group and the Company in the preparation of the consolidated and separate financial statements for the financial year ended 31 December 2018. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Statement of compliance

2.2.1 Amendments to published standards and interpretations

The following accounting standards, amendments to published accounting standards and interpretations which became effective for the year commencing on 1 January 2018 were adopted by the group:

STANDARD, AMENDMENT OR INTERPRETATION	IMPACT ON THE FINANCIAL STATEMENTS
Amendments to IFRS 2 *Share-based Payment Transactions*	No impact on the financial statements
Annual improvements to IFRSs: 2014-2016 Cycle: IFRS 1 and IAS 28	No impact on the financial statements
Clarifications to IFRS 15 *Revenue from Contracts with Customers*	No significant impact on the financial statements
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	No impact on the financial statements
IFRS 9 *Financial Instruments*	See below
IFRS 15 *Revenue from Contracts with Customers*	See below

IFRS 9 — Financial instruments

IFRS 9 replaces IAS 39 and sets out the updated requirements for recognition and measurement, impairment, derecognition and general hedge accounting of financial instruments. These requirements specifically deal with the classification and measurement of financial instruments. With regards to classification, subsequent to initial recognition, the financial assets are to be classified as either amortised cost, fair value through profit and loss or fair value through other comprehensive income, based on the business model and contractual cash flow characteristics. The measurement of impairment losses is based on an expected credit loss model, which takes into account the time value of money, probability weighting as well as forward looking information. IFRS 9 further requires consideration of the disaggregation of the debtors' book when considering impairment where revenue streams are likely to have different risk profiles. The group applied the modified retrospective approach on adoption.

The adoption of this new standard had no material impact on the group's earnings for the year. Refer to note 6.

IFRS 15 — Revenue from contracts with customers

IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with customers. The standard requires an entity to recognise revenue in such a manner as to depict the transfer of goods or services to customers at an amount representing the consideration, to which the entity expects to be entitled in exchange for those goods or services. The identified contracts with customers are required to be evaluated to determine the performance obligations, the transaction price and the point at which the performance obligation is satisfied by transferring promised goods or services to the customers. IFRS 15 requires that an entity should apply the standard using either one of the following transition approaches; a) retrospectively to each prior reporting period; or b) retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

PRINCIPAL ACCOUNTING POLICIES CONTINUED
for the year ended 31 December 2018

2. BASIS OF PREPARATION continued
2.2 Statement of compliance continued
2.2.1 Amendments to published standards and interpretations continued
IFRS 15 — Revenue from contracts with customers *continued*

The group's revenue is primarily derived from commodity sales for which the point of recognition is dependent on the contract sales terms known as the International Commercial terms (Incoterms). Under incoterms (i.e. cost, insurance and freight (CIF) and cost and freight (CFR)), the seller is required to contract and pay for the costs and freight necessary to bring the goods to a named port destination.

Consequently, the freight service on export commodity contracts with CIF/CFR Incoterms represents a separate performance obligation as defined under IFRS 15 and as such, a portion of the revenue earned under these contracts, representing the obligation to perform the freight service, is deferred and recognised when this obligation has been fulfilled, along with the associated costs.

The impact of applying IFRS 15 in the 2018 financial year was as follows:
- net decrease in profit after tax of R201 million
- no material impact on opening retained earnings
- increase in current assets of R9 million
- increase in current liabilities of R288 million

2.2.2 New IFRS accounting standards, amendments and interpretations not yet effective and not early adopted
The accounting standards, amendments to issued accounting standards and interpretations which are relevant to the group but not yet effective at 31 December 2018, are being evaluated for the impact of these pronouncements. These accounting standards are listed in Annexure 4.

2.3 Currencies
Functional and presentation currency

Items included in the financial statements of each group entity are measured using the functional currency of that entity. The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The consolidated and separate financial results are presented in South African Rand, which is Kumba's functional currency and the group's presentation currency.

All amounts have been rounded to the nearest million, unless otherwise indicated.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of an entity at the prevailing rate of exchange at the transaction date.

Monetary assets and liabilities that are denominated in foreign currencies are translated into the functional currency of an entity at the rate of exchange ruling at the statement of financial position date. Foreign exchange gains and losses arising on translation are recognised in the statement of profit or loss.

Foreign operations

The financial results of all entities that have a functional currency different from the presentation currency of Kumba are translated into the presentation currency (South African Rand).

All assets and liabilities, including fair value adjustments arising on acquisitions, are translated at the rate of exchange ruling at the statement of financial position date. Income and expenditure transactions of foreign operations are translated at the average rate of exchange. Resulting foreign exchange gains and losses arising on translation are recognised in the foreign currency translation reserve (FCTR) as a separate component of other comprehensive income.

2.4 Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Kumba Executive Committee.

Management has determined the operating segments of the group based on the reports reviewed by the Executive Committee that are used to make strategic decisions. The Executive Committee considers the business principally according to the nature of the products and services provided, with the segment representing a strategic business unit. The reportable operating segments derive their revenue primarily from mining, extraction, production, distribution and selling of iron ore and shipping services charged to external clients.

2.5 Events after the reporting period
Recognised amounts in the financial statements are adjusted to reflect events arising after the statement of financial position date that provide evidence of conditions that existed at the statement of financial position date. Events after the statement of financial position date that are indicative of conditions that arose after the statement of financial position date are dealt with in note 31.

3. COMPANY FINANCIAL STATEMENTS

Subsidiaries, associates and joint arrangements

Investments in subsidiaries, associates and joint arrangements in the separate financial statements presented by Kumba are recognised at cost less accumulated impairment.

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1 Basis of consolidation

The consolidated financial statements present the statement of financial position and changes therein, operating results and cash flow information of the group. The group comprises Kumba, its subsidiaries and interests in joint arrangements and associates.

Where necessary, adjustments are made to the results of subsidiaries, joint arrangements and associates to ensure the consistency of their accounting policies with those used by the group.

Intercompany transactions, balances and unrealised profits and losses between group companies are eliminated on consolidation. In respect of joint arrangements and associates, unrealised profits and losses are eliminated to the extent of the group's interest in these entities. Unrealised profits and losses arising from transactions with associates are eliminated against the investment in the associate.

Subsidiaries

Subsidiaries are those entities (including special purpose entities) over which the group has control. Control is achieved where the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Associates

Associates are all entities over which the group is in a position to exercise significant influence but not control, through participation in the financial and operating policy decisions of the investee. Typically the group owns between 20% and 50% of the voting equity.

Investments in associates are accounted for using the equity method of accounting from the date on which significant influence commences until the date that significant influence ceases, and are initially recognised at cost.

Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Joint ventures are accounted for using the equity method.

Equity accounting method

Under the equity method of accounting, interests in associates and joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in an associate or joint venture equals or exceeds its interests in the associate or joint venture (which includes any long-term interests that, in substance, form part of the group's net investment in the associate or joint venture), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated or joint venture. When subsequent profits are made, previously unrecognised losses are first fully eliminated before the profits are recognised as part of the investment.

The total carrying value of associates and joint ventures, including goodwill, is reviewed when there is objective evidence that the asset is impaired. If impaired, the carrying value of the group's share of the underlying net assets of associates or joint ventures are written down to its estimated recoverable amount and recognised in the statement of profit or loss.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in the associates and joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Results of associates are equity accounted from their most recent audited annual financial statements or unaudited interim financial statements.

Non-controlling interests

The effects of transactions with non-controlling interests that do not result in loss of control are recorded in equity as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in statement of changes in equity.

PRINCIPAL ACCOUNTING POLICIES CONTINUED
for the year ended 31 December 2018

4. CONSOLIDATED FINANCIAL STATEMENTS continued
STATEMENT OF FINANCIAL POSITION
4.2 Property, plant and equipment
Land and assets under construction, which includes capitalised development and mineral exploration and evaluation costs, are measured at cost less any accumulated impairment and are not depreciated.

All other classes of property, plant and equipment are stated at historical cost less any accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

The cost of items of property, plant and equipment includes all costs incurred to bring the assets to the location and condition necessary for their intended use by the group. The cost of self-constructed assets includes expenditure on materials, direct labour and an allocated proportion of project overheads. The cost of property, plant and equipment may also include:
- the estimated costs of decommissioning the assets and site rehabilitation costs to the extent that they relate to the asset
- capitalised pre-production expenditure and waste stripping costs
- deferred waste stripping costs

The cost of items of property, plant and equipment is capitalised into its various components where the useful life of the components differ from the main item of property, plant and equipment to which the component can be logically assigned. Expenditure incurred to replace or modify a significant component of property, plant and equipment is capitalised and any remaining carrying value of the component replaced is written off as an expense in the statement of profit or loss.

Subsequent expenditure on property, plant and equipment is capitalised only when the expenditure enhances the value or output of the asset beyond original expectations and it can be measured reliably. Costs incurred on repairing and maintaining assets are recognised in the statement of profit or loss in the period in which they are incurred.

Gains and losses on the disposal of property, plant and equipment, which are represented by the difference between the net disposal proceeds, if any, and the carrying amount of the item, are recognised in the statement of profit or loss.

Depreciation
Depreciation commences on self-constructed assets when they are available for use by the group. Depreciation is charged on a systematic basis over the estimated useful lives of the assets after deducting the estimated residual value of the assets, using the straight-line method. The depreciation method applied is reviewed at least each financial year end, with any changes accounted for as a change in accounting estimate to be applied prospectively. The depreciation charge for each period is recognised in the statement of profit or loss unless it is included in the carrying amount of another asset.

The useful life of an asset is the period of time over which the asset is expected to be used. The estimated useful lives of assets and their residual values are reassessed annually at the end of each reporting period, with any changes in such accounting estimates being adjusted in the year of reassessment and applied prospectively. The estimated useful lives of items of property, plant and equipment (excluding land and assets under construction that are not depreciated) are:

Mineral properties	10 – 14 years
Residential buildings	5 – 14 years
Buildings and infrastructure	5 – 14 years
Machinery, plant and equipment	
Mobile equipment, built-in process computers and reconditionable spares	2 – 14 years
Fixed plant and equipment	4 – 14 years
Loose tools and computer equipment	5 years
Mineral exploration, site preparation and development	5 – 14 years

Research, development, mineral exploration and evaluation costs
Research, development, mineral exploration and evaluation costs are expensed in the year in which they are incurred until they result in projects that the group:
- evaluates as being technically or commercially feasible
- has sufficient resources to complete development
- can demonstrate that it will generate probable future economic benefits

Once these criteria are met, all directly attributable development costs and ongoing mineral exploration and evaluation costs are capitalised within property, plant and equipment. During the development of a mine, before production commences, stripping expenses are capitalised as part of the investment in construction of the mine. Capitalisation of pre-production expenditure ceases when the mining property is capable of commercial production.

Capitalised pre-production expenditure prior to commercial production is assessed for impairment in accordance with the group's accounting policy on impairment of non-financial assets.

4. CONSOLIDATED FINANCIAL STATEMENTS continued
STATEMENT OF FINANCIAL POSITION continued

4.2 Property, plant and equipment continued

Waste stripping expenses

The removal of overburden or waste material is required to obtain access to an ore body. In the production phase of a mine, the mining costs associated with this process are deferred to the extent that the actual stripping ratio of a component is higher than the expected average reserve life stripping ratio for that component. The deferred costs are charged to operating costs using a unit of production method of depreciation. The ex-pit ore extracted from the related component during the period is expressed as a percentage of the total ex-pit ore expected to be extracted from that component over the reserve life and applied to the balance of the deferred stripping asset for that component. The effect of this will therefore be that the cost of stripping in the statement of profit or loss will be reflective of the average stripping rates for the ore body mined in any given period. This reflects the fact that waste removal is necessary to gain access to the ore body and therefore realise future economic benefit.

The average reserve life stripping ratio for the identified components is calculated as the tonnes of ex-pit waste material expected to be removed over the reserve life per tonne of ex-pit ore extracted. The cost per tonne is calculated as the total mining costs for a mine for the period under review divided by total tonnes handled for the period under review. A component has been identified as a geographically distinct ore body within a pit to which the stripping activities being undertaken within that component could be allocated.

Where the pit profile is such that the actual stripping ratio is below the average reserve life stripping ratio no deferral takes place as this would result in recognition of a liability for which there is no obligation. Instead, this position is monitored and when the cumulative calculation reflects a debit balance deferral commences.

The stripping ratios for each component are reassessed annually at the end of each reporting period. Any changes in such accounting estimates are adjusted in the year of reassessment and applied prospectively.

4.3 Impairment of non-financial assets

The group's non-financial assets, other than inventories and deferred tax, are reviewed annually to determine whether there is any indication that those assets are impaired, or previous impairment has reversed, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment or reversal of previous impairment. Recoverable amounts are estimated for individual assets. Where an individual asset cannot generate cash inflows independently, the assets are grouped at the lowest level for which there is separately identifiable cash-generating units (CGUs). The recoverable amount is determined for the CGUs to which the asset belongs.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognised in the statement of profit or loss.

A previously recognised impairment is reversed insofar as estimates change as a result of an event occurring after the impairment was recognised. An impairment is reversed only to the extent that the asset or CGU's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the statement of profit or loss.

Exploration and evaluation assets are tested for impairment when development of the property commences or whenever facts and circumstances indicate impairment. An impairment is recognised for the amount by which the exploration assets' carrying amount exceeds their recoverable amount. For the purpose of assessing impairment, the relevant exploration and evaluation assets are included in the existing CGUs of producing properties that are located in the same region.

PRINCIPAL ACCOUNTING POLICIES CONTINUED
for the year ended 31 December 2018

4. CONSOLIDATED FINANCIAL STATEMENTS continued
STATEMENT OF FINANCIAL POSITION continued

4.4 Financial assets

Recognition and measurement

The group recognises its financial assets in the statement of financial position when and only when it becomes party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised using the trade date accounting, being the date in which the group becomes party to the contractual provisions of the relevant instrument.

At initial recognition, the financial assets are measured at fair value plus or minus, in the case of a financial assets not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

At subsequent reporting dates, financial assets at amortised cost are measured at amortised cost, using effective interest method, less any impairment losses. Other investments classified as either at fair value through profit or loss are subsequently measured at fair value. The gains and losses from the fair value movements for the period are included in the statement of profit or loss within other gains and losses.

Classification

The group's financial assets are classified into the following measurement categories:
- derivatives and equity instruments at fair value through profit or loss (FVTPL)
- debt instruments at amortised cost

Financial assets at fair value through profit or loss

Financial assets at FVTPL consist of derivative financial assets disclosed as part of long-term prepayments and as part of cash and cash equivalents, other receivables and investments held by the environmental trust in the statement of financial position.

Financial assets at amortised cost

Financial assets are classified as at amortised cost only if the asset is held within a business model whose objective is to collect the contractual cash flows and the contractual terms of the asset give rise to cash flows that are solely payments of principal and interest. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

The financial assets at amortised cost consist of cash and cash equivalents, and trade and other receivables, and are disclosed in the statement of financial position.

Trade and other receivables

Trade receivables are amounts due from customers for iron ore sold or shipping services rendered in the ordinary course of business. Other receivables are amounts due to Kumba, which do not result from the sale of iron ore or shipping services rendered and include interest receivable and other sundry receivable amounts.

If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Where the expected term of a receivable is less than one year, it is presumed that no significant financing component exists.

Cash and cash equivalents

In the consolidated and separate cash flows statements, cash and cash equivalents comprise bank balance and broker margin accounts. The broker margin accounts on derivatives which meet the definition of cash and cash equivalents are also presented as part of cash and cash equivalents.

Derecognition of financial assets

Financial assets are derecognised when the right to receive cash flows from the asset has expired, the right to receive cash flows has been retained but an obligation to on-pay them in full without material delay has been assumed or the right to receive cash flows has been transferred together with substantially all the risks and rewards of ownership.

4. CONSOLIDATED FINANCIAL STATEMENTS continued
STATEMENT OF FINANCIAL POSITION continued

4.5 Impairment of financial assets

A financial asset not measured at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired as a result of one or more events that occurred after the initial recognition of the asset and that loss has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The group assesses on a forward looking basis the expected credit losses, defined as the difference between the contractual cash flows and the cash flows that are expected to be received, associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables only, the simplified approach permitted by IFRS 9 is applied, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Losses are recognised in the statement of profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of profit or loss.

4.6 Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity. They are included in current liabilities, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current liabilities.

The group financial liabilities comprise trade and other payables and derivative liabilities.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and others payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Recognition and measurement

The group recognises its financial liabilities in the statement of financial position when and only when the entity become party to the contractual provisions of the instrument.

At initial recognition, an entity shall measure a financial liability at its fair value plus or minus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.

At subsequent reporting dates, financial liabilities (other than derivative liabilities) are subsequently carried at amortised cost, using the effective interest method, and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss.

Derecognition

Financial liabilities are derecognised when the associated obligation has been discharged, cancelled or has expired.

4.7 Derivative financial instruments

Derivative instruments are categorised as at FVTPL, and are classified as current assets or liabilities. All derivative instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value at statement of financial position date. Resulting gains or losses on derivative instruments are recognised in the statement of profit or loss. The broker margin accounts on derivatives which meet the definition of cash and cash equivalents are also presented as part of cash and cash equivalents.

4.8 Offsetting financial instruments

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 and the net amount is reported in the statement of financial position.

PRINCIPAL ACCOUNTING POLICIES CONTINUED
for the year ended 31 December 2018

4. CONSOLIDATED FINANCIAL STATEMENTS continued
STATEMENT OF FINANCIAL POSITION continued

4.9 Inventories
Inventories comprise finished products, work-in-progress and plant spares and stores, and are measured at the lower of cost, determined on a weighted average basis, and net realisable value.

The cost of finished goods and work-in-progress comprises direct labour, other direct costs and fixed production overheads, but excludes finance costs. Fixed production overheads are allocated on the basis of normal capacity. Plant spares and consumable stores are capitalised to the statement of financial position and expensed to the statement of profit or loss as they are utilised.

Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and variable selling expenses. Write-downs to net realisable value and inventory losses are expensed in the statement of profit or loss in the period in which the write-downs or losses occur.

Inventories are included in current assets unless the inventory will not be realised within 12 months after the end of the reporting period.

4.10 Share capital
Ordinary shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group entity purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and is included in equity attributable to the Company's equity holders.

4.11 Dividends payable
Dividends payable and the related taxation thereon are recognised by the group when the dividend is declared. These dividends are recorded and disclosed as dividends paid in the statement of changes in equity. Dividend withholding tax is levied on the recipient but collected by the group and remitted to the authorities. A liability is recognised in respect of the tax levied for the period when the dividends are recognised as a liability. Dividend withholding tax is not included in the taxation charge in the statement of profit or loss.

Dividends proposed or declared subsequent to the statement of financial position date are not recognised, but are disclosed in the notes to the consolidated and separate financial statements.

4.12 Provisions
A provision is recognised when the group has a present legal or constructive obligation as a result of past events when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the statement of financial position date. Provisions are not recognised for future operating losses.

Where the effects of discounting are material, provisions are measured at their present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance cost.

Environmental rehabilitation

Environmental rehabilitation provisions

The provision for environmental rehabilitation is recognised as and when an obligation to incur rehabilitation and mine closure costs arises from environmental disturbance caused by the development or ongoing production of a mining property. Estimated long-term environmental rehabilitation provisions are measured based on the group's environmental policy taking into account current technological, environmental and regulatory requirements. Any subsequent changes to the carrying amount of the provision resulting from changes to the assumptions applied in estimating the obligation are recognised in the statement of profit or loss.

4. CONSOLIDATED FINANCIAL STATEMENTS continued
STATEMENT OF FINANCIAL POSITION continued
4.12 Provisions continued
Environmental rehabilitation continued
Ongoing rehabilitation expenditure

Ongoing rehabilitation expenditure incurred is offset against the recognised provision in the statement of financial position.

Decommissioning provision

The estimated present value of costs relating to the future decommissioning of plant or other site preparation work, taking into account current environmental and regulatory requirements, is capitalised as part of property, plant and equipment, to the extent that it relates to the construction of an asset, and the related provisions are raised in the statement of financial position, as soon as the obligation to incur such costs arises.

These estimates are reviewed at least annually and changes in the measurement of the provision that result from the subsequent changes in the estimated timing or amount of cash flows, or a change in discount rate, are added to, or deducted from, the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the statement of profit or loss. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the accounting policy on 'Impairment of non-financial assets' above.

4.13 Deferred tax

Deferred tax is recognised using the liability method, on all temporary differences between the carrying values of assets and liabilities for accounting purposes and the tax bases of these assets and liabilities used for tax purposes and on any tax losses.
No deferred tax is provided on temporary differences relating to:

- the initial recognition of goodwill (for deferred tax liabilities only)
- the initial recognition (other than in a business combination) of an asset or liability to the extent that neither accounting nor taxable profit is affected on acquisition
- investments in subsidiaries to the extent they will probably not reverse in the foreseeable future

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised within the same tax entity. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all of the assets to be recovered.

Deferred tax is calculated at the tax rates and laws that are enacted or substantively enacted in the period when the liability is settled or the asset is realised. Deferred tax is recognised in the statement of profit or loss, except when it relates to items recognised directly to equity, in which case the deferred tax is also taken directly to equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the group intends, and is able to, settle its current tax assets and liabilities on a net basis. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

4.14 Employee benefits
Post-employment benefits

The group operates defined contribution plans for the benefit of its employees. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate fund. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The plan is funded by payments from employees and the group. The group's contribution to the funds is recognised as employee benefit expense in the statement of profit or loss in the year to which it relates.

The group does not provide guarantees in respect of the returns in the defined contribution funds and has no further payment obligations once the contributions have been paid.

The group does not provide defined employee benefits to its current or previous employees.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2018

4. CONSOLIDATED FINANCIAL STATEMENTS continued

STATEMENT OF FINANCIAL POSITION continued

4.14 Employee benefits continued

Bonus plans

The group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the achievement of agreed Company financial, strategic and operational objectives, linked to key performance areas. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

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 are due more than 12 months after statement of financial position date, they are discounted to present value.

Equity compensation benefits

The various equity compensation schemes operated by the group allow certain senior employees, including executive directors, the option to acquire shares in Kumba over a prescribed period in return for services rendered. These options are settled by means of the issue of shares. Such equity-settled share-based payments are measured at fair value at the date of the grant.

The fair value determined at the grant date of the equity-settled share-based payments is charged as employee costs on a straight-line basis over the period that the employees become unconditionally entitled to the options, based on management's estimate of the shares that will vest and adjusted for the effect of non-market-based vesting conditions. These share options are not subsequently revalued.

The fair value of the share options is measured using option pricing models. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations such as volatility, dividend yield and the vesting period. The fair value takes into account the terms and conditions on which these incentives are granted and the extent to which the employees have rendered services to statement of financial position date.

STATEMENT OF PROFIT OR LOSS

4.15 Revenue recognition

Revenue is recognised in a manner that depicts the pattern of the transfer of goods and services to customers in an amount that reflects the consideration to which the group expects to be entitled in exchange for those goods and services. The identified contracts with customers are evaluated to determine the performance obligations, the transaction price and the point at which the performance obligation is satisfied by transferring promised goods or services to the customers. The transactional price is the amount of consideration due in exchange for transferring the promised goods or services to the customer, and is allocated against the performance obligations and recognised in accordance with whether control is recognised over a defined period or at a specific point in time.

Revenue is derived principally from the sale of iron ore and shipping services rendered, and is measured at the fair value of consideration received or receivable, after deducting discounts, volume rebates, value added tax and other sales taxes.

The group recognises revenue when it is probable that the group will collect the consideration to which it will be entitled in exchange for the goods or services that will transferred to the customer and when specific criteria have been met for each of the group's activities as described below.

Sales of goods – iron ore

Local and export revenue from the sale of iron ore is recognised when control has been transferred. This is usually when title and insurance risk have passed to the customer and the goods have been delivered to a contractually agreed location.

Shipping services

Revenue from shipping services is recognised as the performance obligation is fulfilled, along with the associated costs and accepted by the customer. Amounts billed to customers in respect of shipping and handling activities are classified as revenue where the group is responsible for the freight services.

Derivative financial instruments gains/losses

The group's calculation of the average realised iron ore price includes the impact of movements in the fair value of derivatives relating to revenue recognised during the period. As such, the fair value gains or losses on the derivative financial instruments relating to revenue are recognised within revenue.

4.16 Cost of sales

When inventories are sold, the carrying amount is recognised as part of cost of sales. Any write-down of inventories to net realisable value and all losses of inventories or reversals of previous write-downs or losses are recognised in cost of sales in the period the write-down, loss or reversal occurs.

4.17 Income from investments

Interest income

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

Dividend income

Dividend income from investments is recognised by the Company when the shareholders' rights to receive payment have been established. All dividend income received within the group is eliminated on consolidation.

4.18 Employee benefits: short-term benefits

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

4.19 Operating leases

The group leases property and equipment. Under the leasing agreements all the risks and benefits of ownership are effectively retained by the lessor and are classified as operating leases. Payments made under operating leases are expensed in the statement of profit or loss on a straight-line basis over the period of the lease.

4.20 Taxation

The income tax charge for the period is determined based on profit before tax for the year and comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax

The current tax charge is the calculated tax payable on the taxable income for the year using tax rates that have been enacted or substantively enacted by the statement of financial position date and any adjustments to tax payable in respect of prior years. Taxable profit differs from net profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible.

Dividend tax

Dividend withholding tax is levied on dividend recipients and has no impact on the group taxation charge as reflected in the statement of profit or loss.

4.21 Earnings per share

The group presents basic and diluted earnings per share (EPS) and basic and diluted headline earnings per share (HEPS) data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of Kumba by the weighted average number of ordinary shares outstanding during the year.

HEPS is calculated by adjusting the profit or loss attributable to ordinary shareholders of Kumba for all separately identifiable remeasurements, for example gains and losses arising on disposal of assets, net of related tax (both current and deferred) and related non-controlling interest, other than remeasurements specifically included in headline earnings. The result is divided by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS and HEPS is determined by adjusting the basic and headline earnings attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises share options granted to employees.

EPS and DEPS are shown for both continuing and discontinuing operations to the extent that a discontinued operation has been presented.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2018

4. CONSOLIDATED FINANCIAL STATEMENTS continued

STATEMENT OF PROFIT OR LOSS continued

4.21 Earnings per share continued

Normalised earnings is specific to Kumba and is not required in terms of International Financial Reporting Standards or the JSE Listings Requirements. Normalised earnings represents earnings from the recurring activities of the group.

This is determined by adjusting the headline earnings attributable to the owners of Kumba for non-recurring expense or income items incurred during the year. The recognition and utilisation of the deferred tax asset is a non-recurring item and has therefore been adjusted in determining normalised earnings.

4.22 Convenience translation from South African Rand to US Dollar

The presentation currency of the group is South African Rand.

Supplementary US Dollar information is provided for convenience only. The conversion to US Dollar is performed as follows:

- assets and liabilities are translated at the closing rate of exchange on statement of financial position date
- income and expenses are translated at average rates of exchange for the years presented
- shareholders' equity, other than attributable earnings for the year, is translated at the closing rate on each statement of financial position date

The resulting translation differences are included in other comprehensive income.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements requires the group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and estimates and assumptions of the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience, current and expected economic conditions, and in some cases actuarial techniques. Actual results could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are recognised prospectively.

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

5.1 Consolidation of special purpose entities

The group sponsors the formation of special purpose entities (SPE) primarily to hold Kumba shares for the benefit of employees. SPEs are consolidated when the substance of the relationship between the group and the SPE indicates control. As it can sometimes be difficult to determine whether the group controls an SPE, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question.

5.2 Segment reporting

In applying IFRS 8 *Operating Segments*, management makes judgements with regard to the identification of reportable operating segments of the group as well as what constitutes segment results to enable users to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

5.3 Property, plant and equipment

The depreciable amount of property, plant and equipment is allocated on a systematic basis over its useful life. Selection of the depreciation method and estimation of the useful life of assets are matters of judgement.

In determining the depreciable amount, management makes certain assumptions with regard to the residual value of assets based on the expected estimated amount that the group would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. If an asset is expected to be abandoned the residual value is estimated at zero.

The estimation of the useful life of the asset is a matter of judgement based on the experience of the group with similar assets. In determining the useful life of items of property, plant and equipment that is depreciated, management considers the expected usage of assets, expected physical wear and tear, legal or similar limits of assets such as mineral rights as well as obsolescence.

This estimate is further impacted by management's best estimation of proved and probable iron ore reserves and the expected future life of each of the mines within the group. The forecast production could be different from the actual iron ore mined. This would generally result from significant changes in the factors or assumptions used in estimating iron ore reserves. These factors could include:

- changes in proved and probable iron ore reserves
- differences between achieved iron ore prices and assumptions
- unforeseen operational issues at mine sites
- changes in capital, operating, mining, processing, reclamation and logistics costs, discount rates and foreign exchange rates

Any change in management's estimate of the useful lives and residual values of assets would impact the depreciation charge. Any change in management's estimate of the total expected future life of each of the mines would impact the depreciation charge as well as the estimated rehabilitation and decommissioning provisions.

5.4 Waste stripping costs

The rate at which costs associated with the removal of overburden or waste material is capitalised as development costs or charged as an operating costs is calculated per component of each mine, using management's best estimates of the:

- average reserve life stripping ratio
- total expected production over the reserve life

The average reserve life stripping ratio is recalculated when a new life-of-mine plan (LoMP) is designed and approved for use in light of additional knowledge and changes in estimates. Any change in management's estimates would impact the stripping costs capitalised and depreciation of the related asset.

5.5 Fair value assessment

The assessment of fair value is principally used in accounting for impairment testing and the valuation of certain financial assets and liabilities.

The determination of assumptions used in assessing the fair value of identifiable assets and liabilities is subjective and the use of different valuation assumptions could have a significant impact on financial results. In particular, expected future cash flows, which are used in discounted cash models, are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including Ore Reserves and Resources, together with economic factors such as commodity prices, exchange rates, discount rates and estimates of production costs and future capital expenditure.

The fair value of identifiable financial assets and liabilities that are not traded in an active market is determined by using observable market data (in the case of listed entities, market share price at 31 December of the respective entity) or discounted cash flow (DCF) models (and other valuation techniques) using assumptions considered to be reasonable and consistent with those that would be applied by a market participant. Where discounted cash flows are used, the resulting fair value measurements depend, to a significant extent, on unobservable valuation inputs.

The group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the statement of financial position date.

PRINCIPAL ACCOUNTING POLICIES CONTINUED
for the year ended 31 December 2018

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

5.6 Impairment of assets

Critical accounting judgements

The group assesses at each reporting date whether there are any indicators that its assets and cash-generating units (CGUs) may be impaired. Operating and economic assumptions, which could affect the valuation of assets using discounted cash flows, are updated regularly as part of the group's planning and forecasting processes. Judgement is therefore required to determine whether the updates represent significant changes in the service potential of an asset or CGU, and are therefore indicators of impairment or impairment reversal. The judgement also takes into account the group's long-term economic forecasts, market consensus and sensitivity analysis of the discounted cash flow models used to value the group's assets. Assets (other than goodwill) that have been previously impaired are assessed for indicators of both impairment and impairment reversal. Such assets are, by definition, carried on the statement of financial position at a value close to their recoverable amount at the last assessment. Therefore in principle any change to operational plans or assumptions, economic parameters, or the passage of time, could result in further impairment or impairment reversal if an indicator is identified.

The calculation of the recoverable amount of a CGU is based on assessments of the higher of the fair value less costs of disposal or value in use. The cash flow projections used in these assessments are subject to the areas of judgement outlined below. Refer to note 2 for more detailed disclosure on impairment of property, plant and equipment.

Cash flow projections for impairment testing

Expected future cash flows used in discounted cash flow models are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including Ore Reserves and Mineral Resources, together with economic factors such as commodity prices, exchange rates, discount rates and estimates of production costs and future capital expenditure. Where discounted cash flow models based on management's assumptions are used, the resulting fair value measurements are considered to be at level 3 in the fair value hierarchy, as defined in IFRS 13 *Fair Value Measurement*, as they depend to a significant extent on unobservable valuation inputs.

Cash flow projections are based on financial budgets and life-of-mine plans or, for non-mine assets, an equivalent appropriate long-term forecast, incorporating key assumptions as detailed below:

- ***Reserves and resources***
  Ore reserves and, where considered appropriate, mineral resources, are incorporated in projected cash flows, based on ore reserves and mineral resource statements and exploration and evaluation work undertaken by appropriately qualified persons. Mineral resources are included where management has a high degree of confidence in their economic extraction, despite additional evaluation still being required prior to meeting the requirements of reserve classification.
- ***Commodity and product prices***
  Commodity and product prices are based on latest internal forecasts, benchmarked with external sources of information, to ensure they are within the range of available analyst forecasts. Where existing sales contracts are in place, the effects of such contracts are taken into account in determining future cash flows.
- ***Foreign exchange rates***
  Foreign exchange rates are based on latest internal forecasts, benchmarked with external sources of information. Foreign exchange rates are kept constant (on a real basis) for the long term.
- ***Discount rates***
  Cash flow projections used in fair value less costs of disposal impairment models are discounted based on a discount rate of 7% (2017: 7%). To the extent that specific risk factors were not incorporated into the discount rate, adjustments were made to the cash flow projections.
- ***Operating costs, capital expenditure and other operating factors***
  Operating costs and capital expenditure are based on financial budgets covering a five-year period. Cash flow projections beyond five years are based on LoMP as applicable, and internal management forecasts. Cost assumptions incorporate management experience and expectations.

5.7 Equity-settled share-based payment reserve

Management makes certain judgements in respect of selecting appropriate fair value option pricing models to be used in estimating the fair value of the various share-based payment arrangements in respect of employees and special purpose entities. Judgements and assumptions are also made in calculating the variable elements used as inputs in these models. The inputs that are used in the models include, but are not limited to, the expected vesting period and related conditions, share price, dividend yield, share option life, risk-free interest rate and annualised share price volatility (refer note 21).

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

5.8 Provision for environmental rehabilitation and decommissioning

The provisions for environmental rehabilitation and decommissioning costs are calculated using management's best estimate of the costs to be incurred based on the group's environmental policy taking into account current technological, environmental and regulatory requirements discounted to a present value. Estimates are based upon costs that are regularly reviewed, by internal and external experts, and adjusted as appropriate for new circumstances. Actual costs incurred in future periods could differ from the estimates. Additionally, future changes to environmental laws and regulations, reserve life estimates and discount rates used could affect the carrying amount of this provision. As a result, the liabilities that we report can vary if our assessment of the expected expenditures changes.

5.9 Deferred tax assets

The group recognises the net future tax benefit related to deferred income tax assets, to the extent that it can be regarded as probable that the deductible temporary differences will reverse in the foreseeable future, or that there is a probability of utilising assessed losses. Assessing the recoverability of deferred income tax assets requires the group to make significant estimates related to expectations of future taxable income on a subsidiary by subsidiary basis. Estimates of future taxable income are based on forecast cash flows from operations. To the extent that future cash flows differ significantly from estimates, the ability of the group to realise the net deferred tax assets recorded at statement of financial position date could be impacted.

5.10 Estimation of deemed gross sales value of revenue for calculating mineral royalty

In terms of the Mineral and Petroleum Resources Royalty Act, 28 of 2008 and the Mineral and Petroleum Resources Royalty Administration Act, 29 of 2008, the specified condition for iron ore used to calculate the mining royalty payable will be deemed to have been extracted at a 61.5% Fe specified condition. Management is required to make certain judgements and estimates in determining the gross sales value of the ore extracted at the group's mines.

5.11 Provisionally priced revenue from spot sales

Certain of the group's spot sales are provisionally priced at the reporting date as the final sales price for these sales are not settled until a predetermined future date based on the average iron ore price at that time. Revenue on these sales is initially recognised at the current market rate on the bill of lading date as the revenue recognition criteria per the accounting policy is satisfied on this date.

Provisionally priced sales are marked to market with reference to the Platts Iron Ore Index (IODEX) price at each reporting date. The forward market for iron ore is not considered sufficiently liquid and therefore the price for the last day of the month is assumed to continue into the following month for the purposes of calculating the provisionally priced revenue transactions. This adjustment is recognised in revenue with a contra-entry to accounts receivable balance.

5.12 Going concern

Management considers key financial metrics and loan covenant compliance in its approved medium-term budgets, together with its existing-term facilities, to conclude that the going concern assumption used in the compiling of its annual financial statements is appropriate.

5.13 Discontinued operation

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. The Thabazimbi mine continued to be classified as a discontinued operation consistent with the prior year, until 1 November 2018 when the mine was transferred from SIOC to Thabazimbi Iron Ore Mine Proprietary Limited, previously ArcelorMittal South Africa Operations Proprietary Limited (a wholly owned subsidiary of ArcelorMittal SA). The analysis of the results of Thabazimbi has been disclosed in note 19.

STATEMENT OF FINANCIAL POSITION

as at 31 December

Rand million	Notes	**2018**	2017
ASSETS			
Property, plant and equipment	2	**37,723**	36,833
Biological assets		**3**	3
Investments held by environmental trust	3	**621**	627
Long-term prepayments and other receivables	4	**216**	211
Inventories	5	**2,410**	2,841
Deferred tax assets	9	**–**	72
Non-current assets		**40,973**	40,587
Inventories	5	**6,236**	4,061
Trade and other receivables	6	**4,157**	2,709
Contract assets	6	**9**	–
Current tax assets		**6**	–
Cash and cash equivalents	7	**11,670**	13,874
Current assets		**22,078**	20,644
Assets of disposal group classified as held for sale	19	**–**	1,235
Total assets		**63,051**	62,466
EQUITY AND LIABILITIES			
Shareholders' equity		**35,260**	34,769
Non-controlling interest	22	**10,927**	10,777
Total equity		**46,187**	45,546
Liabilities			
Provisions	8	**2,239**	1,860
Deferred tax liabilities	9	**8,805**	8,860
Non-current liabilities		**11,044**	10,720
Provisions	8	**72**	147
Trade and other payables	10	**5,460**	4,945
Contract liabilities	10	**288**	–
Current tax liabilities		**–**	59
Current liabilities		**5,820**	5,151
Liabilities of disposal group classified as held for sale	19	**–**	1,049
Total liabilities		**16,864**	16,920
Total equity and liabilities		**63,051**	62,466

STATEMENT OF FINANCIAL POSITION – US DOLLAR CONVENIENCE TRANSLATION

(supplementary information) – as at 31 December

US Dollar million	**2018**	2017
ASSETS		
Property, plant and equipment	**2,624**	2,993
Biological assets	*****	*
Investments held by environmental trust	**43**	52
Long-term prepayments and other receivables	**15**	17
Inventories	**168**	231
Deferred tax assets	**–**	6
Non-current assets	**2,850**	3,299
Inventories	**434**	330
Trade and other receivables	**289**	220
Contract assets	*****	–
Current tax assets	**–**	–
Cash and cash equivalents	**812**	1,127
Current assets	**1,535**	1,677
Assets of disposal group classified as held for sale	**–**	100
Total assets	**4,385**	5,076
EQUITY AND LIABILITIES		
Shareholders' equity	**2,452**	2,825
Non-controlling interest	**760**	876
Total equity	**3,212**	3,701
Liabilities		
Provisions	**156**	151
Deferred tax liabilities	**612**	720
Non-current liabilities	**768**	871
Provisions	**5**	12
Trade and other payables	**380**	402
Contract liabilities	**20**	–
Current tax liabilities	*****	5
Current liabilities	**405**	419
Liabilities of disposal group classified as held for sale	**–**	85
Total liabilities	**1,173**	1,375
Total equity and liabilities	**4,385**	5,076
EXCHANGE RATE		
Translated at closing Rand/US$ exchange rate	**14.38**	12.31

* Amount is less than US$1 million.

STATEMENT OF PROFIT OR LOSS
for the year ended 31 December

Rand million	Notes	**2018**	2017
Revenue	11	**45,725**	46,379
Operating expenses	12	**(29,365)**	(24,989)
Operating profit	13	**16,360**	21,390
Finance income	16	**499**	637
Finance costs	16	**(179)**	(339)
Profit before taxation		**16,680**	21,688
Taxation	17	**(4,026)**	(5,481)
Profit for the year from continuing operations		**12,654**	16,207
Discontinued operation			
Loss from discontinued operation	19	**(59)**	(74)
Profit for the year		**12,595**	16,133
Attributable to:			
Owners of Kumba		**9,615**	12,335
Non-controlling interest		**2,980**	3,798
		12,595	16,133
Basic earnings/(loss) per share attributable to the ordinary equity holders of Kumba (Rand per share)			
From continuing operations		**30.22**	38.86
From discontinued operation		**(0.14)**	(0.23)
Total basic earnings per share		**30.08**	38.63
Diluted earnings/(loss) per share attributable to the ordinary equity holders of Kumba (Rand per share)			
From continuing operations		**30.01**	38.60
From discontinued operation		**(0.14)**	(0.23)
Total diluted earnings per share		**29.87**	38.37

STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended 31 December

Rand million	**2018**	2017
Profit for the year	**12,595**	16,133
Other comprehensive income for the year[1]	**523**	(454)
Exchange differences on translation of foreign operations	**523**	(454)
Total comprehensive income for the year	**13,118**	15,679
Attributable to:		
Owners of Kumba	**10,014**	11,989
Non-controlling interest	**3,104**	3,690
	13,118	15,679

[1] There is no tax attributable to items included in other comprehensive income and all items will subsequently be reclassified to profit or loss.

STATEMENT OF PROFIT OR LOSS – US DOLLAR CONVENIENCE TRANSLATION

(supplementary information) – for the year ended 31 December

US Dollar million	**2018**	2017
Revenue	**3,453**	3,487
Operating expenses	**(2,218)**	(1,879)
Operating profit	**1,235**	1,608
Finance income	**38**	48
Finance costs	**(14)**	(25)
Profit before taxation	**1,259**	1,631
Taxation	**(304)**	(412)
Profit for the year from continuing operations	**955**	1,219
Discontinued operation		
Loss from discontinued operation	**(4)**	(6)
Profit for the year from continuing operation	**951**	1,213
Attributable to:		
Owners of Kumba	**726**	927
Non-controlling interest	**225**	286
	951	1,213
Basic earnings/(loss) per share attributable to the ordinary equity holders of Kumba (US Dollar per share)		
From continuing operations	**2.28**	2.92
From discontinued operation	**(0.01)**	(0.02)
Total basic earnings per share	**2.27**	2.90
Diluted earnings/(loss) per share attributable to the ordinary equity holders of Kumba (US Dollar per share)		
From continuing operations	**2.27**	2.90
From discontinued operation	**(0.01)**	(0.02)
Total diluted earnings per share	**2.26**	2.88
EXCHANGE RATE		
Translated at average Rand/US$ exchange rate	**13.24**	13.30

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

Rand million	Share capital and share premium	Treasury shares	Equity-settled share-based payments reserve	Foreign currency translation reserve	Retained earnings	Shareholders' equity	Non-controlling interest	Total equity
Notes	20	20	21				22	
Balance at 31 December 2016	367	(481)	172	1,262	26,530	**27,850**	8,686	**36,536**
Net movement in treasury shares under employee share incentive schemes	–	(61)	–	–	–	**(61)**	–	**(61)**
Equity-settled share-based payments expense	–	–	135	–	–	**135**	–	**135**
Vesting of shares under employee share incentive schemes	–	121	(121)	–	–	**–**	–	**–**
Total comprehensive income for the year	–	–	–	(346)	12,335	**11,989**	3,690	**15,679**
Dividends paid					(5,144)	**(5,144)**	(1,599)	**(6,743)**
Balance at 31 December 2017	**367**	**(421)**	**186**	**916**	**33,721**	**34,769**	**10,777**	**45,546**
Net movement in treasury shares under employee share incentive schemes	**–**	**(112)**	**–**	**–**	**–**	**(112)**	**–**	**(112)**
Equity-settled share-based payments expense	**–**	**–**	**94**	**–**	**–**	**94**	**–**	**94**
Vesting of shares under employee share incentive schemes	**–**	**73**	**(77)**	**–**	**4**	**–**	**–**	**–**
Liquidation of subsidiary[1]	**–**	**–**	**–**	**(3)**	**3**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**–**	**399**	**9,615**	**10,014**	**3,104**	**13,118**
Dividends paid	**–**	**–**	**–**	**–**	**(9,505)**	**(9,505)**	**(2,954)**	**(12,459)**
Balance at 31 December 2018	**367**	**(460)**	**203**	**1,312**	**33,838**	**35,260**	**10,927**	**46,187**

[1] Relates to liquidation of a subsidiary, Kumba International BV.

DIVIDEND PER SHARE

Rand	2018	2017
Interim	**14.51**	15.97
Final[1]	**15.73**	15.00
Total	**30.24**	30.97

[1] The final dividend for 2018 was declared subsequent to the year-end and is presented for information purposes only.

Equity-settled share-based payments reserve

The equity-settled share-based payments reserve comprises the fair value of goods received or services rendered that has been settled through the issue of shares or share options.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial results of foreign operations to the presentation currency of Kumba.

STATEMENT OF CASH FLOWS
for the year ended 31 December

Rand million	Notes	**2018**	2017
Cash flows from operating activities			
Cash receipts from customers		**45,116**	48,325
Cash paid to suppliers and employees		**(26,210)**	(25,893)
Cash generated from operations	23	**18,906**	22,432
Net finance income received	24	**405**	461
Taxation paid	25	**(4,077)**	(5,883)
		15,234	17,010
Cash flows utilised in investing activities			
Additions to property, plant and equipment	27	**(4,463)**	(3,074)
Proceeds from disposal of non-current assets		**17**	27
		(4,446)	(3,047)
Cash flows utilised in financing activities			
Purchase of treasury shares		**(112)**	(61)
Dividends paid to owners of Kumba	26	**(9,505)**	(5,144)
Dividends paid to non-controlling shareholders	26	**(2,954)**	(1,599)
Interest-bearing borrowings repaid		**–**	(4,500)
		(12,571)	(11,304)
Net increase in cash and cash equivalents		**(1,783)**	2,659
Cash and cash equivalents at beginning of year	7	**13,874**	10,665
Foreign currency exchange (loss)/gain on cash and cash equivalents		**(421)**	550
Cash and cash equivalents at end of year	7	**11,670**	13,874

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December

1. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Kumba Executive Committee.

The Kumba Executive Committee considers the business principally according to the nature of the products and services provided, with the identified segments each representing a strategic business unit. 'Other segments' comprise corporate, administration and other expenditure not allocated to the reported segments.

The total reported segment revenue comprises revenue from external customers, and is measured in a manner consistent with that disclosed in the statement of profit or loss. The performance of the operating segments is assessed based on earnings before tax, interest, depreciation and amortisation (EBITDA), which is considered to be a more appropriate measure of profitability for the group's business. Finance income and finance costs are not allocated to segments, as treasury activity is managed on a central group basis.

Total segment assets comprise finished goods inventory only, which is allocated based on the operations of the segment and the physical location of the asset.

Depreciation, staff costs, impairment of assets and additions to property, plant and equipment are not reported to the CODM per segment, but are significant items which are included in EBITDA and/or reported on for the group as a whole.

	Products[1]			Services			
Rand million	**Sishen mine**	**Kolomela mine**	**Thabazimbi mine**	**Logistics[2]**	**Shipping operations**	**Other**	**Total[3]**
2018							
Statement of profit or loss							
Revenue (from external customers)	**29,383**	**11,665**	**–**	**–**	**4,677**	**–**	**45,725**
EBITDA	**20,261**	**7,443**	**(63)**	**(6,184)**	**145**	**(1,036)**	**20,566**
Significant items in the statement of profit or loss:							
Depreciation	**3,096**	**1,136**	**–**	**10**	**–**	**27**	**4,269**
Staff costs	**2,855**	**955**	**–**	**40**	**–**	**776**	**4,626**
Statement of financial position							
Total segment assets	**713**	**673**	**–**	**161**	**–**	**3**	**1,550**
Statement of cash flows							
Additions to property, plant and equipment							
Expansion capex	**506**	**–**	**–**	**–**	**–**	**–**	**506**
Stay-in-business capex	**1,688**	**597**	**–**	**3**	**–**	**–**	**2,288**
Deferred stripping	**1,370**	**299**	**–**	**–**	**–**	**–**	**1,669**

[1] Derived from extraction, production and selling of iron ore.
[2] No revenue is reported for this segment as its performance is reviewed with reference to volumes railed and rail tariffs achieved.
[3] The amounts in the total column are inclusive of the Thabazimbi mine amounts. These amounts are not included in each line item on the statement of profit or loss as Thabazimbi mine as a discontinued operation has been disclosed separately.

1. SEGMENT REPORTING continued

Rand million	Products[1] Sishen mine	Kolomela mine	Thabazimbi mine	Services Logistics[2]	Shipping operations	Other	Total[3]
2017							
Statement of profit or loss							
Revenue (from external customers)	30,252	11,723	—	—	4,404	—	46,379
EBITDA	18,842	7,481	(56)	(5,806)	(83)	(820)	19,558
Significant items in the statement of profit or loss:							
Depreciation	1,934	1,001	13	9	—	70	3,027
Impairment reversal	(4,789)	—	—	—	—	—	(4,789)
Staff costs	2,522	848	—	41	—	771	4,182
Statement of financial position							
Total segment assets	695	349	—	166	—	30	1,240
Statement of cash flows							
Additions to property, plant and equipment							
Expansion capex	575	—	—	—	—	—	575
Stay-in-business capex	684	446	—	2	—	173	1,305
Deferred stripping	942	252	—	—	—	—	1,194

[1] Derived from extraction, production and selling of iron ore.
[2] No revenue is reported for this segment as its performance is reviewed with reference to volumes railed and rail tariffs achieved.
[3] The amounts in the total column are inclusive of the Thabazimbi mine amounts. These amounts are not included in each line item on the statement of profit or loss as Thabazimbi mine as a discontinued operation has been disclosed separately.

Rand million	Note	2018	2017
Reconciliation of reportable segments' assets to inventories			
Segment assets for reportable segments		**1,550**	1,240
Work-in-progress inventory, plant spares and stores		**7,095**	5,662
Inventories per statement of financial position	5	**8,646**	6,902

Geographical analysis

Geographical analysis of revenue and non-current assets:

Rand million	Audited 31 December 2018	Audited 31 December 2017
Total revenue from external customers	**45,725**	46,379
South Africa	**2,787**	2,714
Export	**42,938**	43,665
China	**24,350**	27,260
Rest of Asia	**9,587**	8,538
Europe	**8,263**	6,626
Middle East and North Africa	**738**	1,241

All non-current assets, excluding investments in associates and joint ventures, are located in South Africa. At 31 December 2017, R14 million of the non-current assets relating to prepayments was located in Singapore.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December

2. PROPERTY, PLANT AND EQUIPMENT

Rand million	Land	Mineral properties	Residential buildings	Buildings and infrastructure	Machinery, plant and equipment	Mineral exploration, site preparation and development	Assets under construction	Total
2018								
Cost								
Balance at beginning of year	293	621	3,475	6,082	33,554	8,532	4,305	56,862
Additions (refer to note 27)								
Capital acquisitions	74	–	–	–	1,610	–	1,930	3,614
Deferred stripping	–	–	–	–	–	1,669	–	1,669
Changes in decommissioning provision (refer to note 8)	–	–	–	(33)	(18)	–	30	(21)
Disposals and scrapping	(25)	–	–	(27)	(514)	(6)	(12)	(584)
Transfers between asset classes	–	–	5	75	1,136	(163)	(1,053)	–
Balance at 31 December 2018	342	621	3,480	6,097	35,768	10,032	5,200	61,540
Accumulated depreciation								
Balance at beginning of year	–	352	693	1,489	15,703	1,349	–	19,586
Depreciation	–	21	168	332	3,047	701	–	4,269
Notional depreciation on impairment charge[1]	–	–	10	–	3	430	–	443
Disposals and scrapping	–	–	–	(27)	(448)	(6)	–	(481)
Balance at 31 December 2018	–	373	871	1,794	18,305	2,474	–	23,817
Impairment charge								
Balance at beginning of year	–	–	10	–	3	430	–	443
Notional depreciation on impairment charge[1]	–	–	(10)	–	(3)	(430)	–	(443)
Balance at 31 December 2018	–	–	–	–	–	–	–	–
Carrying amount at 31 December 2018	342	248	2,609	4,303	17,463	7,558	5,200	37,723

[1] Notional depreciation relates to depreciation on the assets transferred to ArcelorMittal SA.

2. PROPERTY, PLANT AND EQUIPMENT continued

Rand million	Land	Mineral properties	Residential buildings	Buildings and infrastructure	Machinery, plant and equipment	Mineral exploration, site preparation and development	Assets under construction	Total
2017								
Cost								
Balance at beginning of year	295	621	3,457	5,411	32,937	7,026	4,296	54,043
Additions (refer to note 27)								
Capital acquisitions	–	–	–	–	26	–	1,854	1,880
Deferred stripping	–	–	–	–	–	1,194	–	1,194
Changes in decommissioning provision (refer to note 8)	–	–	–	(51)	(47)	145	(101)	(54)
Disposals and scrapping	–	–	(1)	–	(170)	–	(40)	(211)
Assets transferred from Thabazimbi	–	–	–	–	10	–	–	10
Transfers between asset classes	(2)	–	19	722	798	167	(1,704)	–
Balance at 31 December 2017	293	621	3,475	6,082	33,554	8,532	4,305	56,862
Accumulated depreciation								
Balance at beginning of year	–	327	508	1,147	12,681	828	–	15,491
Depreciation	–	16	137	278	2,209	387	–	3,027
Notional depreciation on impairment charge	–	9	49	64	933	134	–	1,189
Disposals and scrapping	–	–	(1)	–	(120)	–	–	(121)
Balance at 31 December 2017	–	352	693	1,489	15,703	1,349	–	19,586
Impairment charge								
Balance at beginning of year	30	70	396	411	3,228	1,376	910	6,421
Notional depreciation on impairment charge	–	(9)	(49)	(64)	(933)	(134)	–	(1,189)
Impairment reversal	(30)	(61)	(338)	(347)	(2,291)	(812)	(910)	(4,789)
Balance at 31 December 2017	–	–	9	–	4	430	–	443
Carrying amount at 31 December 2017	293	269	2,773	4,593	17,847	6,753	4,305	36,833

The group generated proceeds from the disposal of items of property, plant and equipment of R17 million (2017: R27 million).

The estimated replacement value of assets for insurance purposes and assets under construction at cost amounts to R71 billion (2017: R62 billion).

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

None of the assets are encumbered as security for any of the group's liabilities, nor is the title to any of the assets restricted.

Rand million	**2018**	2017
Capital commitments		
Capital commitments include all items of capital expenditure for which specific Board approval has been obtained up to statement of financial position date. Capital expenditure will be financed principally from cash generated from operations.		
Capital expenditure still in the study phase of the project pipeline for which specific Board approvals have not yet been obtained are excluded.		
Capital expenditure contracted for plant and equipment	**694**	597
Capital expenditure authorised for plant and equipment but not contracted	**1,555**	1,634

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December

3. INVESTMENTS HELD BY ENVIRONMENTAL TRUST

Rand million	2018	2017
Balance at beginning of year	**952**	855
Movement in investment in environmental trusts made up of:	**(331)**	97
Transfer to Thabazimbi Rehabilitation Trust	**(329)**	–
Loss or return on investments	**(2)**	97
Balance at end of year (including discontinued operation)	**621**	952
Transferred to assets of disposal group classified as held for sale (refer to note 19)	**–**	(325)
Balance at end of year (excluding discontinued operation)	**621**	627
Comprising:	**621**	627
Equity	**111**	236
Cash	**215**	155
Bonds	**295**	236
Portion related to Thabazimbi comprising:	**–**	325
Equity	**–**	325

The trust's investment activities are managed by Old Mutual Investment Group (South Africa) Proprietary Limited. The trust aims to achieve its objectives by investing in a diversified portfolio of equity and debt securities of predominantly South African listed companies as well as South African sovereign and corporate debt. Each mine's portfolio is managed separately according to each individual mine's risk and life-of-mine profile.

The movement in the environmental trust includes fair value movements as well as dividend and interest income where applicable. This movement is recognised in 'Net finance gains' (refer to note 15).

These investments may only be utilised for the purposes of settling decommissioning and rehabilitation obligations relating to the group's mining operations. The investment returns are reinvested by the trust. Refer to note 8 for the environmental rehabilitation and decommissioning provisions.

An amount of R329 million relating to funds invested for the purpose of decommissioning and rehabilitation of Thabazimbi mine was transferred to the Thabazimbi Rehabilitation Trust on 1 November 2018 as disclosed in note 19.

4. LONG-TERM PREPAYMENTS AND OTHER RECEIVABLES

Rand million	2018	2017
Long-term receivables	**84**	557
Prepayments	**132**	113
Balance at end of year (including discontinued operation)	**216**	670
Transferred to assets of disposal group classified as held for sale (refer to note 19)	**–**	(459)
Balance at end of year (excluding discontinued operation)	**216**	211
Maturity profile of long-term prepayments and other receivables		
1 to 2 years	**102**	104
2 to 5 years	**77**	38
More than 5 years	**37**	69
	216	211
Maturity profile of long-term prepayments and other receivables related to Thabazimbi		
1 to 2 years	**–**	130
2 to 5 years	**–**	329
	–	459

5. INVENTORIES

Rand million	2018	2017
Finished products	**1,550**	1,240
Work-in-progress	**5,678**	4,238
Plant spares and stores	**1,418**	1,424
Total inventories	**8,646**	6,902
Non-current portion of work-in-progress inventories	**2,410**	2,841
Current portion of inventories	**6,236**	4,061
Total inventories	**8,646**	6,902

During the year, the group wrote down inventory of R157 million (2017: R726 million). Rnil (2017: R228 million) of inventory was written off to a zero carrying value. No inventories were encumbered during the year.

Work-in-progress inventory balances which will not be processed within the next 12 months are presented as non-current.

6. TRADE AND OTHER RECEIVABLES AND CONTRACT ASSETS

Rand million	2018	2017
Trade receivables	**2,596**	1,420
Other receivables[1]	**1,470**	1,651
Provision for credit losses – other receivables	**(1)**	(1)
Net trade and other receivables	**4,065**	3,070
Prepayments	**92**	79
Balance at year-end (excluding contract assets)	**4,157**	3,149
Contract assets[2]	**9**	*
Balance at year-end (including contract assets and discontinued operation)	**4,166**	3,149
Other receivables transferred to assets of disposal group classified as held for sale	**–**	(440)
Balance at year-end (excluding discontinued operation)	**4,166**	2,709

[1] Other receivables mainly comprise of a VAT receivable of R1,062 million (2017: R1,080 million).
[2] Relates to deferred associated shipping costs for shipping performance obligation not yet fulfilled.
* The prior year impact was not material.

Credit risk

Kumba is largely exposed to the credit risk relating to end-user customers within the steel manufacturing industry. Refer to note 33 for detailed disclosure regarding the group's approach to credit risk management.

Significant concentrations of credit risk

R1,790 million (2017: R1,056 million) or 69% (2017: 39%) of the total outstanding trade receivables balance of R2,596 million (2017: R1,420 million) consists of individual end-user customers with an outstanding balance in excess of 5% of the total trade receivables balance as at 31 December 2018.

The historical level of customer default is minimal and as a result, the credit quality of year-end receivables is considered to be high.

Rand million	2018	2017
Trade receivables credit risk exposure by geographical area		
South Africa	**528**	250
Europe	**148**	44
Asia	**1,920**	1,126
	2,596	1,420
Trade receivables credit risk exposure by currency		
Rand	**528**	250
US Dollar	**2,068**	1,170
	2,596	1,420
Ageing of trade receivables		
Not past due	**2,596**	1,420
	2,596	1,420

A provision for credit losses of R1 million (2017: R1 million) was raised against a sundry debtor's balance.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

7. CASH AND CASH EQUIVALENTS AND DEBT FACILITIES

Rand million	2018	2017
Bank balance and cash	**11,643**	13,630
Broker margin accounts – derivatives	**27**	244
Cash and cash equivalents	**11,670**	13,874

The broker margin accounts represent the initial and variation margins settled in cash equal to the value of the derivative contract on a daily basis. These broker margin accounts have been classified as cash and cash equivalents because they are short term, readily convertible to cash and are subject to insignificant risk changes in value.

Rand million	2018	2017
Currency analysis of cash and cash equivalents		
Rand	**5,617**	7,146
US Dollar	**6,048**	6,718
Euro	**2**	6
Other	**3**	4
	11,670	13,874

Refer to note 33 for detailed disclosure regarding the group's approach to credit risk management.

Short-term deposit facilities were placed with subsidiaries of the ultimate holding company during the year under review (refer to note 32).

Debt facilities

Rand million	Maturity date	Interest rate at 31 December	Facility
Unsecured loans			
Revolving syndicated facility at a variable interest rate of JIBAR plus a margin which varies based on the period of the borrowing	2020	2018 Not applicable 2017 Not applicable	12,000
Call loan facility at floating call rates[1]	Open	2018 Not applicable 2017 Not applicable	8,320
Total			20,320

[1] No amount from this facility was drawn down in 2018. This is a facility held with a related party, refer to note 32.

The group's debt facilities consist of a committed R12 billion (31 December 2017: R12 billion) revolving credit facility which matures in 2020 and uncommitted facilities of R8.3 billion (31 December 2017: R8.3 billion). The committed and uncommitted facilities were undrawn at 31 December 2018 and 31 December 2017.

8. PROVISIONS

Rand million	Employee benefits cash-settled share-based payments	Environmental rehabilitation	Decommis-sioning	Other	Total
Non-current provisions	**71**	**1,897**	**271**	**–**	**2,239**
Current portion of provisions	**1**	**71**	**–**	**–**	**72**
Total provisions	**72**	**1,968**	**271**	**–**	**2,311**
2018					
Balance at beginning of year (including disposal group classified as held for sale)	**41**	**2,536**	**464**	**15**	**3,056**
Unwinding of discount (refer to note 16)	**–**	**75**	**14**	**–**	**89**
Increase in provision charged to the statement of profit or loss	**23**	**559**	**–**	**5**	**587**
Exchange differences on translation	**10**	**–**	**–**	**–**	**10**
Capitalised to property, plant and equipment (refer to note 2)	**–**	**24**	**(45)**	**–**	**(21)**
Utilised during the year	**(2)**	**(255)**	**(148)**	**(6)**	**(411)**
Disposal of discontinued operation (refer to note 19)	**–**	**(971)**	**(14)**	**(14)**	**(999)**
Balance at 31 December 2018	**72**	**1,968**	**271**	**–**	**2,311**
Expected timing of future cash flows					
Within 1 year	**1**	**71**	**–**	**–**	**72**
2 to 5 years	**71**	**–**	**–**	**–**	**71**
More than 5 years	**–**	**1,897**	**271**	**–**	**2,168**
	72	**1,968**	**271**	**–**	**2,311**
Estimated undiscounted obligation	**72**	**2,942**	**722**	**–**	**3,737**
2017					
Non-current provisions	39	2,305	319	9	2,672
Current portion of provisions	2	231	145	6	384
Transferred to liabilities of disposal group classified as held for sale	–	(1,034)	(15)	–	(1,049)
Total provisions	**41**	**1,502**	**449**	**15**	**2,007**
Balance at beginning of year	37	2,372	478	180	3,067
Unwinding of discount (refer to note 16)	–	158	40	–	198
Increase in provision charged to the statement of profit or loss	11	147	–	–	158
Unused amounts reversed	–	–	–	(165)	(165)
Exchange differences on translation	(5)	–	–	–	(5)
Capitalised to property, plant and equipment (refer to note 2)	–	–	(54)	–	(54)
Utilised during the year	(2)	(141)	–	–	(143)
Transferred to liabilities of disposal group classified as held for sale	–	(1,034)	(15)	–	(1,049)
Balance at 31 December 2017	**41**	**1,502**	**449**	**15**	**2,007**
Expected timing of future cash flows					
Within 1 year	2	231	145	6	384
2 to 5 years	39	–	–	9	48
More than 5 years	–	1,271	304	–	1,575
	41	**1,502**	**449**	**15**	**2,007**
Estimated undiscounted obligation	**41**	**3,651**	**588**	**15**	**4,295**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

8. PROVISIONS continued

Cash-settled share-based payments

At 31 December 2018, the current provision represented amounts payable to deceased beneficiaries on the Envision phase 2 share scheme. The non-current provision represents amounts payable to beneficiaries of certain conditional share awards under the bonus share scheme and the employee share option scheme (Karolo).

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 reviewed regularly and adjusted as appropriate for new circumstances.

Decommissioning

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.

Funding of environmental rehabilitation and decommissioning (refer to note 3)

The group funds the environmental rehabilitation and decommissioning obligations through a combination of the Kumba Iron Ore Rehabilitation Trust and financial guarantees (refer to note 28). The carrying value of the assets held by the Trust amounted to R621 million at 31 December 2018 (2017: R952 million).

Other

Other provisions relate to rail and port activities as well as social labour plans.

Significant accounting estimates and assumptions

The measurement of the environmental rehabilitation and decommissioning provisions is a key area where management's judgement is required. The closure provisions are measured at the present value of the expected future cash flows required to perform the rehabilitation and decommissioning. This calculation requires the use of certain estimates and assumptions when determining the amount and timing of the future cash flows and the discount rate. The closure provisions are updated at each reporting period date, for changes in the estimates of the amount or timing of future cash flows and changes in the discount rate. The LoMP on which accounting estimates are based only includes proved and probable ore reserves as disclosed in Kumba's annual ore reserves and mineral resources statement.

The resultant changes in the provisions are summarised as follows and are as a result of the change in Sishen mine's reserve life:

Rand million	Environmental rehabilitation	Decommissioning	Total
Change in provision	414	(21)	**393**
Revised estimates of closure costs	436	(14)	**422**
Expected timing of future cash flows	(22)	(7)	**(29)**

The increase in the revised estimates of closure costs for the environmental rehabilitation provision was mostly due to the increase in the waste dump footprint at Sishen mine. The change in expected timing of future cash flows, which decreased the closure provisions by R29 million, is the result of the revision of the LoMP for Sishen and Kolomela. The R21 million increase in the decommissioning provision was capitalised to property, plant and equipment whereas the R414 million increase was recognised to the statement of profit or loss decreasing the profits attributable to the owners of Kumba by R227 million.

These sensitivities are provided excluding the impact of Thabazimbi, given the sales transaction disclosed in note 19.

The carrying value of the closure provisions are sensitive to the estimates and assumptions used in its measurement. If the discount rate had been 1% higher than management's estimate, the group would have decreased the current provision by R243 million (2017: R187 million). On the other hand, if the discount rate had been 1% lower than management's estimate, the group would have increased the current provision by R274 million (2017: R220 million).

9. DEFERRED TAX

Rand million	2018	2017
Deferred tax assets		
Reconciliation		
Balance at beginning of year	**72**	87
Current year utilisation	**(72)**	(87)
Recognition of deferred tax asset on assessed loss	**–**	72
	–	72
Expected timing:		
Deferred tax assets to be recovered within 12 months	**–**	72
	–	72
Deferred tax assets attributable to the following temporary differences:		
Estimated tax losses	**–**	72
Total deferred tax assets	**–**	72

There are no unused tax losses for which deferred tax asset was recognised at 31 December 2018 (2017: R2 billion).

Rand million	2018	2017
Deferred tax liabilities		
Reconciliation		
Balance at beginning of year	**8,860**	7,462
Continuing operation – prior year adjustment	**(218)**	27
Continuing operation – current year charge	**163**	1,371
	8,805	8,860
Deferred tax liabilities attributable to the following temporary differences:		
Property, plant and equipment	**9,374**	9,446
Environmental rehabilitation provision	**(816)**	(750)
Decommissioning provision	**(68)**	(66)
Environmental rehabilitation trust asset	**266**	267
Leave pay accrual	**(74)**	(72)
Other	**123**	35
Total deferred tax liabilities	**8,805**	8,860

10. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

Rand million	2018	2017
Trade payables	**4,071**	3,911
Other payables[1]	**1,124**	781
Leave pay accrual	**265**	253
Total trade and other payables (excluding contract liabilities)	**5,460**	4,945
Contract liabilities[2]	**288**	–
Total trade and other payables (including contract liabilities)	**5,748**	4,945
Currency analysis of trade and other payables		
Rand	**4,881**	4,257
US Dollar	**867**	687
Euro	**–**	1
	5,748	4,945

[1] Other payables include a short-term incentive accrual of R485 million (2017: R390 million).
[2] Contract liabilities relate to revenue which has not yet been billed due to the shipping performance obligations not yet fulfilled.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

11. REVENUE

Rand million	**2018**	2017
Sale of iron ore	**41,048**	41,975
Services rendered – shipping	**4,677**	4,404
	45,725	46,379
Revenue by destination		
Domestic – South Africa	**2,787**	2,714
Export	**42,938**	43,665
China	**24,350**	27,260
Rest of Asia	**9,587**	8,538
Europe	**8,263**	6,626
Middle East and North Africa	**738**	1,241
	45,725	46,379

12. OPERATING EXPENSES

Rand million	Note	**2018**	2017
Operating expenditure by function			
Production costs		**19,211**	17,367
Movement in work-in-progress inventories		**(1,440)**	228
Cost of goods produced		**17,771**	17,595
Movement in finished product inventories		**167**	224
Net finance (losses)/gains	15	**(116)**	216
Other		**(22)**	241
Cost of goods sold		**17,800**	18,276
Impairment reversal		**–**	(4,789)
Mineral royalty[1]		**876**	1,239
Selling and distribution costs		**6,194**	5,815
Distribution costs		**6,189**	5,754
Selling costs		**5**	61
Cost of services rendered – shipping		**4,532**	4,485
Sub-lease rentals received		**(37)**	(37)
Operating expenses		**29,365**	24,989

[1] The decrease is mainly as a result of an increase in capital expenditure and production costs deductible for royalty purposes.

12. OPERATING EXPENSES continued

Rand million	Notes	2018	2017
Cost of goods sold comprises:			
Staff costs		**4,626**	4,182
Salaries and wages		**4,050**	3,640
Equity-settled share-based payments		**94**	135
Cash-settled share-based payments		**23**	11
Termination benefits		**10**	8
Pension and medical aid contributions	14	**449**	388
Outside services		**3,738**	3,597
Raw materials and consumables		**2,193**	2,576
Deferred stripping costs capitalised		**(1,669)**	(1,194)
Depreciation of property, plant and equipment		**4,269**	3,014
Mineral properties		**21**	16
Residential buildings		**168**	139
Buildings and infrastructure		**332**	278
Machinery, plant and equipment		**3,047**	2,195
Mineral exploration, site preparation and development		**701**	386
Repairs and maintenance		**1,386**	2,213
Legal fees		**38**	(7)
Professional fees		**187**	156
Technical services and project studies		**153**	97
General expenses		**4,022**	2,664
Net finance (gains)/losses	15	**(116)**	216
Energy costs		**374**	376
Own work capitalised		**(129)**	(66)
Net movement in finished product and work-in-progress inventories		**(1,272)**	452
Cost of goods sold		**17,800**	18,276

13. SIGNIFICANT ITEMS INCLUDED IN OPERATING PROFIT

Rand million	2018	2017
Operating profit includes the following amounts:		
Staff costs	**4,489**	4,117
Employee expenses	**4,362**	3,963
Net restructuring costs	**10**	8
Share-based payments expenses	**117**	146
Directors' emoluments (refer to note 34)	**31**	80
Executive directors		
Emoluments received as directors of the Company	**15**	68
Bonuses and cash incentives	**8**	5
Non-executive directors – emoluments received as directors of the Company	**8**	7
Prescribed officers' remuneration (excluding executive directors – refer to note 34)	**37**	54
Operating lease expenses	**190**	165
Equipment	**71**	68
Property	**119**	97
Auditors' remuneration	**9**	12
Audit fees	**9**	9
Other services	*****	3
Research and development cost	*****	*
Net loss on disposal or scrapping of property, plant and equipment	**86**	63
Operating sub-lease rentals received		
Property	**(37)**	(37)

* Amount is less than R1 million.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

14. EMPLOYEE BENEFITS: DEFINED CONTRIBUTION FUNDS

14.1 Retirement fund

At the end of 2018 and 2017, the following independent funds providing pension and other benefits were in existence:

- Kumba Iron Ore Selector Pension Fund; and
- Iscor Employees Umbrella Provident Fund.

Members pay contributions of 7% and an employers' contribution of 9.5% is expensed as incurred. All funds are governed by the South African Pension Funds Act of 1956. Membership of each fund and employer contributions to each fund were as follows:

	2018		2017	
	Working members (number)	**Employer contributions (Rand million)**	Working members (number)	Employer contributions (Rand million)
Kumba Iron Ore Selector Pension and Provident Funds	**2,799**	**164**	2,404	141
Iscor Employees Umbrella Provident Fund	**3,204**	**113**	3,095	101
Total	**6,003**	**277**	5,499	242

Due to the nature of these funds, the accrued liabilities equate to the total assets under control of these funds.

14.2 Medical funds

The group contributes to medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R174 million (2017: R146 million). The group has no obligation to fund post-retirement medical aid contributions for current or retired employees.

15. NET FINANCE (GAINS)/LOSSES

Rand million	**2018**	2017
Finance (gains)/losses recognised in operating profit		
Net losses/(gains) on derivative financial instruments		
Unrealised losses/(gains)	**21**	(112)
Net foreign currency (gains)/losses		
Realised	**(39)**	310
Unrealised	**(108)**	77
Net fair value losses/(gains) on investments held by the environmental trust	**10**	(59)
	(116)	216

16. NET FINANCE INCOME

Rand million	Note	**2018**	2017
Interest expense		**108**	175
Unwinding of discount on provisions[1]	8	**71**	164
Finance costs		**179**	339
Interest received on cash and cash equivalents		**(499)**	(637)
Net finance income		**(320)**	(298)

[1] This amount excludes R18 million (2017: R34 million) for the Thabazimbi mine's discounting of rehabilitation provision as disclosed in note 19.

17. TAXATION

Rand million	2018	2017
Taxation expense		
Current taxation	**4,009**	4,068
Deferred taxation	**17**	1,413
	4,026	5,481
Charges/(release) to the statement of profit or loss		
South African normal taxation		
Current year	**4,028**	4,045
Prior year	**(174)**	(75)
Foreign taxation		
Current year	**155**	98
Income taxation	**4,009**	4,068
Deferred taxation		
Current year	**235**	1,386
Prior year	**(218)**	27
	4,026	5,481
	%	%
Reconciliation of taxation rates		
Taxation as a percentage of profit before taxation	**24.0**	25.3
Taxation effect of:		
Disallowable expenditure[1]	**(0.2)**	(0.1)
Exempt income[1]	**–**	0.5
Rate difference between South African and foreign subsidiaries	**1.8**	1.9
Prior year over-provision	**2.4**	0.3
Equity-settled share-based payments	**–**	(0.2)
Unprovided tax losses recognised	**–**	0.3
Standard taxation rate	**28.0**	28.0

[1] These percentages comprise many immaterial amounts and are therefore aggregated, no individual disclosure is provided.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

18. EARNINGS AND HEADLINE EARNINGS PER SHARE

Attributable earnings per share is calculated by dividing the profit or loss attributable to shareholders of Kumba by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the group and held as treasury shares.

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares as a result of share options granted to employees under the employee share incentive schemes. A calculation is performed to determine the number of shares that could have been acquired at fair value, determined as the average annual market share price of the Company's shares based on the monetary value of the subscription rights attached to the outstanding share options.

Rand million	2018	2017
Profit attributable to equity holders of Kumba	**9,615**	12,335
Number of shares		
Weighted average number of ordinary shares in issue	**319,601,762**	319,302,962
Potential dilutive effect of outstanding share options[1]	**2,318,079**	2,178,119
Diluted weighted average number of ordinary shares in issue	**321,919,841**	321,481,081

[1] The dilution adjustment of 2,318,079 shares at 31 December 2018 (2017: 2,178,119) is a result of the share options previously granted under the various employee share incentive schemes not yet vested.

Reconciliation of headline earnings

The calculation of headline earnings per share is based on the basic earnings per share calculation adjusted for the following items:

	2018		2017	
Rand million	**Gross adjustment**	**Net attributable**	Gross adjustment	Net attributable
Profit attributable to equity holders of Kumba	**9,615**	**9,615**	12,335	12,335
Impairment reversal	**–**	**–**	(4,789)	(2,650)
Net loss on disposal or scrapping of property, plant and equipment	**86**	**52**	63	43
Net loss on disposal of discontinued operations	**18**	**10**	–	–
	9,719	**9,677**	7,609	9,728
Taxation effect of adjustments	**(23)**	**–**	1,309	–
Non-controlling interest in adjustments	**(19)**	**–**	810	–
Headline earnings	**9,677**	**9,677**	9,728	9,728

Rand	2018	2017
Attributable earnings per share		
Basic	**30.08**	38.63
Diluted	**29.87**	38.37
Headline earnings per share		
Basic	**30.28**	30.47
Diluted	**30.06**	30.26

18. EARNINGS AND HEADLINE EARNINGS PER SHARE continued

Normalised earnings

Rand million	2018	2017
Reconciliation of normalised earnings		
Headline earnings attributable to owners of Kumba	**9,677**	9,728
Net utilisation of deferred tax asset[1]	**72**	14
	9,749	9,742
Non-controlling interest in adjustments	**(17)**	(3)
Normalised earnings	**9,732**	9,739
Normalised earnings (Rand per share)		
Basic	**30.45**	30.50
Diluted	**30.23**	30.29
The calculation of basic and diluted normalised earnings per share is based on the weighted average number of ordinary shares in issue as follows:		
Weighted average number of ordinary shares	**319,601,762**	319,302,962
Diluted weighted average number of ordinary shares	**321,919,841**	321,481,081

[1] The 2018 amount includes the utilisation of prior year deferred tax asset of R72 million (2017: R87 million).

19. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As announced in 2017, Sishen Iron Ore Company Proprietary Limited (SIOC) and ArcelorMittal SA had entered into an agreement to transfer Thabazimbi mine to ArcelorMittal SA, subject to the fulfilment of certain conditions precedent. On 10 July 2018, SIOC received the grant letter from the Department of Mineral Resources (DMR) in respect of section 11 of the Mineral and Petroleum Resources Development Act (MPRDA) approving the cession of the Thabazimbi mining rights to ArcelorMittal SA.

Subsequently, on 12 October 2018, Kumba and ArcelorMittal SA announced that all the conditions precedent to the transfer of Thabazimbi mine, together with the mining rights, had either been fulfilled or waived. On 1 November 2018, the employees, assets and liabilities as well as the mining rights and the assumed liabilities of Thabazimbi mine were transferred at a nominal purchase consideration from SIOC to Thabazimbi Iron Ore Mine Proprietary Limited, previously ArcelorMittal South Africa Operations Proprietary Limited (a wholly owned subsidiary of ArcelorMittal SA). The transaction resulted in a net non-cash loss of R18 million.

The Thabazimbi operation continued to be classified as a discontinued operation until 1 November 2018.

Analysis of the result of the Thabazimbi mine is as follows:

Rand million	2018	2017
Operating expenses[1]	**(64)**	(69)
Operating loss	**(64)**	(69)
Net finance loss[2]	**(18)**	(34)
Loss before tax	**(82)**	(103)
Taxation	**23**	29
Loss after tax of discontinued operation	**(59)**	(74)
Attributable to the owners of Kumba	**(45)**	(56)
Attributable to the non-controlling interests	**(14)**	(18)
Loss after income tax of discontinued operation	**(59)**	(74)
Cash flow utilised in discontinued operation		
Net cash flows utilised in operating activities	**(118)**	(128)

[1] Operating expenses were incurred on closure activities.
[2] This amount relates to discounting of the rehabilitation provision.

Kumba Iron Ore Limited group

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

19. DISCONTINUED OPERATION AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE continued

Assets and liabilities of disposal group held for sale

Rand million	2018	2017
ASSETS		
Biological assets	–	11
Investments held by environmental trust (refer to note 3)	–	325
Long-term prepayments and other receivables (refer to note 4)	–	459
Trade and other receivables (refer to note 6)	–	440
Total assets	–	1,235
LIABILITIES		
Non-current provisions	–	(812)
Current provisions	–	(237)
Total liabilities	–	(1,049)
Net carrying amount	–	186

The transaction resulted in a net non-cash loss of R18 million, analysed as follows:

Rand million	Audited 31 October 2018
ASSETS	
Investments held by environmental trust	**329**
Long-term prepayments and other receivables	**496**
Trade and other receivables	**192**
Total assets	**1,017**
LIABILITIES	
Non-current provisions	**(991)**
Current provisions	**(8)**
Total liabilities	**(999)**
Net carrying amount sold	**18**
Consideration received	**–**
Net loss	**(18)**

20. SHARE CAPITAL AND SHARE PREMIUM (INCLUDING TREASURY SHARES)

Number of shares	**2018**	2017
Authorised		
Ordinary shares of R0.01 each	**500,000,000**	500,000,000
Issued		
Ordinary shares of R0.01 each	**322,085,974**	322,085,974
Reconciliation of issued shares		
Number of shares at beginning of year	**322,085,974**	322,085,974
Number of shares at end of year	**322,085,974**	322,085,974
Shares held in reserve reconciliation (unissued shares)		
Authorised shares at beginning of year not issued	**177,914,026**	177,914,026
Unissued shares	**177,914,026**	177,914,026

No new shares were issued during 2018 and 2017.

The unissued shares are under the control of the directors of Kumba until the next annual general meeting. All issued shares are fully paid up. There are no rights, preferences or restrictions attached to these shares.

Reconciliation of treasury shares held

Number of shares	**2018**	2017
Number of treasury shares at beginning of year	**2,626,977**	2,797,627
Number of shares purchased	**395,399**	284,194
Shares issued to employees under the Long-Term Incentive Plan and Kumba Bonus Share Plan	**(457,212)**	(454,844)
Number of treasury shares at end of year	**2,565,164**	2,626,977

All treasury shares are held in respect of employee share schemes and are available for utilisation for the purposes of these schemes, as disclosed in note 21. At 31 December 2018, all treasury shares are held as conditional share awards under the Kumba Bonus Share Plan and Employee Benefit Scheme Share Option Scheme (Karolo).

Rand million	**2018**	2017
Reconciliation of share capital and premium (net of treasury shares)		
Balance at beginning of year	**(54)**	(114)
Net movement in treasury shares under employee share incentive schemes	**(39)**	60
Purchase of treasury shares under employee share incentive schemes[1]	**(112)**	(61)
Shares issued to employees under employee share incentive schemes	**73**	121
Balance at end of year	**(93)**	(54)
Comprises		
Share capital	**3**	3
Share premium	**364**	364
Treasury shares	**(460)**	(421)

[1] The average price paid for the purchase of the shares in 2018 was R284.12 per share (2017: R214.77 per share).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

21. EQUITY-SETTLED SHARE-BASED PAYMENTS RESERVE

Rand million	2018	2017
Balance at beginning of year	186	172
Equity-settled share-based payments expense	94	135
Employee share incentive schemes:		
Employee Benefit Share Option Scheme (Karolo)	6	–
Bonus Share Plan (BSP)	84	43
Long-Term Incentive Plan (LTIP)	4	92
Vesting of shares under employee share incentive schemes	(77)	(121)
Balance at end of year	203	186

Refer to Annexure 3: 'Equity-settled share-based payments reserve' for a description, detailed movements and the valuation assumptions of each share scheme for the year under review.

22. NON-CONTROLLING INTEREST

Rand million	2018	2017
Balance at beginning of year	10,777	8,686
Profit for the year	2,980	3,798
Exxaro	2,592	3,303
SIOC Community Development Trust	388	495
Dividends paid	(2,954)	(1,599)
Exxaro	(2,569)	(1,391)
SIOC Community Development Trust	(385)	(208)
Interest in movement in equity reserves	124	(108)
Foreign currency translation reserve	124	(108)
Balance at end of year	10,927	10,777

Details relating to non-controlling interests are disclosed in note 32.

23. CASH GENERATED FROM OPERATIONS

Rand million	2018	2017
Operating profit (including discontinued operation)	16,296	21,320
Adjusted for:		
Depreciation of property, plant and equipment	4,269	3,027
Movement in provisions	180	(150)
Unrealised foreign currency revaluations and fair value adjustments	522	(896)
Loss on disposal or scrapping of property, plant and equipment	86	63
Loss on disposal of discontinued operations	18	–
Impairment reversal	–	(4,789)
Other non-cash movements	(704)	–
Movement in non-current financial assets and prepayments	(42)	(78)
Equity-settled share-based payments expenses	94	135
Cash flows from operations	20,719	18,632
Working capital movements		
(Increase)/decrease in inventories	(1,831)	583
(Increase)/decrease in trade and other receivables	(609)	1,946
Increase in trade and other payables	627	1,271
	18,906	22,432

24. NET FINANCE INCOME RECEIVED

Rand million	Note	2018	2017
Net finance income per the statement of profit or loss		**(320)**	(298)
Finance costs paid by discontinued operation		**18**	35
Adjusted for:			
Notional interest on provisions	8	**(89)**	(198)
Movement in interest receivable		**(14)**	–
		(405)	(461)
Finance income received		**(513)**	(637)
Finance cost paid		**108**	176
		(405)	(461)

25. TAXATION PAID

Rand million	2018	2017
Taxation liabilities at beginning of year	**59**	1,906
Income taxation per the statement of profit or loss (refer to note 17)	**4,009**	4,068
Income taxation for the discontinued operation	**(23)**	(29)
Translation of taxation for foreign operations	**26**	(3)
Taxation liabilities at end of year	**6**	(59)
Taxation paid per the statement of cash flow	**4,077**	5,883
Comprising normal taxation:		
South Africa	**4,077**	5,883
	4,077	5,883

26. DIVIDENDS PAID

Rand million	2018	2017
Dividends paid to owners of Kumba	**9,505**	5,144
Dividends per the statement of changes in equity	**9,505**	5,144
Dividends paid to non-controlling shareholders	**2,954**	1,599
Dividends per the statement of changes in equity	**2,954**	1,599

27. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Rand million	2018	2017
Investment to expand operations	**506**	575
Investments to maintain operations	**3,108**	1,305
Non-cash additions	**(820)**	–
Deferred stripping costs capitalised	**1,669**	1,194
Additions per the statement of cash flows	**4,463**	3,074

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

28. GUARANTEES AND REGULATORY UPDATE

Rand million	2018	2017
Guarantees		
Environmental trust closure liability guarantees to the DMR	**2,880**	2,806
Guarantees provided to BNP Paribas	**287**	275
Operational guarantees to the DMR	**17**	21
	3,184	3,102

28.1 Environmental obligations

The total guarantees issued in favour of the DMR in respect of the group's environmental closure liabilities at 31 December 2018 were R2.9 billion (2017: R2.8 billion). Included in this amount are financial guarantees for the environmental rehabilitation and decommissioning obligations of the group to the DMR in respect of the Thabazimbi mine of R439 million (2017: R439 million). ArcelorMittal SA has guaranteed R439 million of this amount by means of bank guarantees issued in favour of SIOC. The relevant parties are in the process of exchanging the Thabazimbi guarantees as part of the sale transaction (refer to note 19).

As a result of the annual revision of closure costs, a shortfall of R586 million arose. Guarantees in respect of the shortfall will be issued in due course.

28.2 Mining Charter

Kumba welcomes the gazetting of Mining Charter 2018 by the Minister of Mineral Resources on 27 September 2018.

The Mining Charter 2018 is a significant improvement on the draft 2017 and 2018 Mining Charters and deals in a more constructive way with numerous issues that had proven to be challenging under the 2010 Charter. We also greatly appreciate the extensive efforts made by the Minister and his team to engage with and take on board the feedback of numerous stakeholder groups in finalising this Charter.

In its submission to the DMR on 27 August 2018, Kumba presented a number of proposals that we believe would assist in achieving greater competitiveness, investment and growth for the mining industry.

While we are still in the process of reviewing and undertaking a full assessment of the implications of the new Charter, we welcome certain improvements and points of clarity that have been incorporated.

These include:
- no additional ownership requirements for existing mining rights
- the requirement for the 1% EBITDA trickle dividend has been removed
- the inclusion of an equity equivalent ownership structure for communities
- the removal of the "free carried interest" shareholding requirement for community and employee share ownership schemes
- provisions regarding prospecting rights have been withdrawn
- the foreign supplier contribution provision has been removed

However, we do still have a few significant concerns that we believe may continue to affect the sustainability of the mining industry in South Africa.

These include, but are not limited to:
- continued regulatory uncertainty arising from the recent favourable decision of the High Court in the Minerals Council of South Africa's application for a declaratory order as to various issues pertaining to the status of the Mining Charter
- application of the Charter (designed for mining) to licences granted under the Precious Metals Act and the Diamonds Act, some of which must be renewed annually
- the provisions suggesting that new and further BEE ownership transactions will need to be concluded at the point of renewal of a mining right

Furthermore, we are concerned that Mining Charter 2018 will, in certain respects, be difficult to implement legally and practically, and that may have unintended adverse consequences for the industry.

A further amendment to the Mining Charter of 2018 was gazetted in December 2018. This amendment has clarified that our first reports as to progress with our Charter initiatives under the Mining Charter 2018 will be due in March 2020 and this is a welcome development.

Kumba has consistently affirmed its support for the government's national transformation objectives in relation to the mining industry and has consistently acknowledged its role in promoting transformation in South Africa. Correspondingly, Anglo American has a longstanding track record of driving and supporting sustainable transformation in the mining industry, and we are certainly committed to continuing that journey.

28. GUARANTEES AND REGULATORY UPDATE continued

28.2 Mining Charter continued

Mineral and Petroleum Resources Development Act (MPRDA)

On 24 August 2018, the Minister of Mineral Resources announced the withdrawal of the MPRDA Amendment Bill. As a result, all amendments that had previously been proposed now fall away, bringing certainty to mining regulation.

Sishen consolidated mining right granted

Sishen's application to extend the mining right to include the Dingleton properties was granted on 25 June 2017 and notarially executed on 29 June 2018. Mining operations in this area will only commence once the required environmental authorisation has been approved, which is expected soon. The grant allows Sishen mine to expand its current mining operations within the adjacent Dingleton area.

Kolomela consolidated mining right granted

The section 102 application to amend the Kolomela mining right and the mining work programme to include Heuningkranz and portion 1 of Langverwacht was granted on 14 October 2018. The environmental authorisation was approved on 7 November 2018. The grant allows Kolomela mine to expand its current mining operations within the adjacent Heuningkranz area.

Thabazimbi transfer to ArcelorMittal SA

On 1 November 2018, the employees, assets and liabilities as well as the mining rights and the assumed liabilities for the mine were transferred at a nominal purchase consideration from Sishen Iron Ore Company Proprietary Limited to Thabazimbi Iron Ore Mine Proprietary Limited (a wholly owned subsidiary of ArcelorMittal South Africa, previously ArcelorMittal South Africa Operations Proprietary Limited).

29. COMMITMENTS

Rand million	2018	2017
Lease commitments		
The future minimum lease payments under non-cancellable leases are as follows:		
Property		
Within 1 year	**87**	87
Between 1 and 2 years	**130**	123
2 to 5 years	**343**	179
More than 5 years	**36**	360
Subtotal	**596**	749
Plant and equipment		
Within 1 year	**1**	26
Between 1 and 2 years	**11**	8
2 to 5 years	**–**	11
Subtotal	**12**	45
Total lease commitments	**608**	794

Shipping commitments

Refer to note 32 for the group's shipping commitments to its fellow subsidiary, Anglo American Marketing Limited (AAML).

30. CONTINGENT LIABILITIES

On 29 June 2018, the South African Revenue Service (SARS) issued the group with additional income tax assessments relating to a tax audit on the deductibility of certain expenditure incurred, covering the 2012 to 2014 years of assessment. The group objected against these assessments after consultation with external tax and legal advisers. On 11 December 2018, SARS advised that it has disallowed the objection. Kumba submitted an appeal against this outcome on 21 February 2019. Based on the external legal and tax advice, the group believes that these matters have been appropriately treated in the results for the year ended 31 December 2018.

There were no other contingent liabilities at 31 December 2018.

31. EVENTS AFTER THE REPORTING PERIOD

31.1 Dividends

A final cash dividend of R15.73 per share was declared by the Board on 15 February 2019 from profits accrued during the financial year ended 31 December 2018. The total cash dividend for the year amounted to R30.24 per share. The estimated total cash flow of the final Kumba dividend, payable on 18 March 2019, is R5.1 billion.

31.2 Other

The directors are not aware of any other matters or circumstances arising since the end of the year and up to the date of this report, not otherwise dealt with in this report.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

32. RELATED-PARTY TRANSACTIONS

During the year, the Company and its subsidiaries, in the ordinary course of business, entered into various sales and purchases of goods and services with the group's related parties, as detailed below. The effect of these transactions is included in the results of the group. These transactions occurred on terms that are no less favourable than those arranged with third parties.

Shareholders

The principal shareholders of the Company are detailed under 'Shareholder analysis' on pages 103 and 104.

Ultimate holding company

Anglo American plc is the group's ultimate holding company, through its 100% held subsidiary Anglo South Africa Proprietary Limited (ASA).

Subsidiaries of ultimate holding company

The Company regularly transacts with its fellow subsidiaries. The most significant transactions are the shipping arrangements entered into with Anglo American Marketing Limited (AAML), the clearing of funds being repatriated to South Africa that are placed on short-term deposit with Anglo American Capital Proprietary Limited and corporate office recharges for services performed.

Anglo American SA Finance Limited (AASAF) acts as an agent for the Company in respect of all foreign exchange transactions and performs a back office treasury function for the group. Short-term cash deposits are placed with the entity, and funds are drawn down from this entity in the form of borrowings when required, resulting in both interest paid and received from AASAF.

Holding company

ASA holds a 69.71% interest in the Company (2017: 69.71%).

Fellow subsidiaries

The Company regularly transacts with Anglo Operations Limited in respect of centralised services provided to Anglo American group companies.

Subsidiaries of the Company

Details of investments in and loans to/(from) subsidiaries are disclosed in Annexure 1.

Associates and joint ventures

Details of investments in associates and joint ventures are disclosed in Annexure 2.

Entities with significant influence over SIOC

Exxaro is SIOC's 20.62% (2017: 20.62%) Black Economic Empowerment shareholder. Details of dividends paid to Exxaro as well as its proportionate share of earnings for the year is detailed in note 22.

Special purpose entities

The group controls the following special purpose entities which are consolidated:

Entity	Nature of business
Kumba Iron Ore Rehabilitation Trust	Trust fund for mine closure
Kumba BSP Trust	Share incentive scheme administrator

Directors, senior management and prescribed officers

Details relating to directors' and the group's Executive Committee remuneration and shareholdings (including share options) are disclosed in note 34.

32. RELATED-PARTY TRANSACTIONS continued

Material related-party transactions

Rand million	2018	2017
Purchase of goods and services and finance charges		
Subsidiaries of ultimate holding company	**4,572**	4,462
Shipping services	**4,572**	4,462
Fellow subsidiaries	**458**	542
Corporate operations (including shared services)	**376**	421
Aircraft services	**–**	1
Research	**82**	120
Entities with significant influence over SIOC[1]	**211**	135
	5,241	5,139
Sale of goods and services and finance income		
Subsidiaries of ultimate holding company[2]		
Finance income	**452**	577
Services	*****	3
	452	580
Amounts owing to related parties (after eliminating inter-company balances)		
Trade payables		
Subsidiaries of ultimate holding company	**630**	665
Anglo Operations Limited	**55**	25
	685	690
Amounts owing by related parties (after eliminating inter-company balances)		
Subsidiaries of ultimate holding company	**10,271**	11,864
Interest receivable	**41**	55
Cash and cash equivalents	**10,228**	11,806
Trade receivables	**2**	3
Associates and joint ventures		
Loans	**111**	111
	10,382	11,975

[1] Goods were purchased from Exxaro and consisted mainly of ferrosilicon.
[2] Interest was earned at an average rate of 6.99% (2017: 7.17%) on cash deposits held with AASAF.
* Amount is less than R1 million.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December

32. RELATED-PARTY TRANSACTIONS continued

Rand million	2018	2017
Shipping services commitments		
The future commitments under contracts for affreightment are as follows:		
Within 1 year	**1,460**	1,204
Between 1 and 2 years	**2,990**	1,231
2 to 5 years	**1,755**	2,758
More than 5 years	**–**	67
	6,205	5,260

AAML enters into contracts of affreightment with shipping service providers, and then enters into back-to-back arrangements with Kumba in respect of all the contracts on the same terms and conditions. The commitments disclosed represent Kumba's future commitments to AAML.

Entities with significant non-controlling interests
SIOC is the only consolidated subsidiary with non-controlling interests. SIOC is incorporated in South Africa.

These non-controlling interests are as follows:

Exxaro Resources Proprietary Limited	20.62%
SIOC Community Development Trust	3.09%

The non-controlling interests in the consolidated financial statements are as follows:

Rand million	2018	2017
Profit for the year allocated to non-controlling interest	**2,980**	3,798
Accumulated non-controlling interests at 31 December	**10,927**	10,777

Summarised financial information of SIOC

Rand million	2018	2017
Statement of profit or loss		
Revenue	**38,209**	39,521
Operating expenses	**(24,005)**	(20,645)
Operating profit	**14,204**	18,876
Net financing income	**203**	183
Income from investments	**2,441**	1,889
Profit before taxation	**16,848**	20,948
Taxation	**(3,716)**	(5,272)
Profit for the year	**13,132**	15,676
Statement of financial position		
Non-current assets (including assets of disposal group classified as held for sale)	**42,476**	44,357
Current assets (including assets of disposal group classified as held for sale)	**19,045**	16,474
Total assets	**61,521**	60,831
Shareholders' equity	**45,173**	44,500
Non-current liabilities (including liabilities of disposal group classified as held for sale)	**11,232**	12,103
Current liabilities (including liabilities of disposal group classified as held for sale)	**5,116**	4,228
Total equity and liabilities	**61,521**	60,831
Statement of cash flows		
Cash flows from operating activities	**15,129**	19,100
Cash flows utilised in investing activities	**(4,446)**	(3,047)
Cash flows utilised in financing activities	**(12,487)**	(4,841)
Net (decrease)/increase in cash and cash equivalents	**(1,804)**	11,212

33. FINANCIAL RISK MANAGEMENT

The group is exposed to credit risk, liquidity risk and market risk (currency, interest rate and commodity price risk) from the use of financial instruments. Overall responsibility for establishment and oversight of the risk management framework rests with the Board of directors. The Risk Committee, a committee of the Board, is responsible for the development, monitoring and communication of the processes for managing risk across the group.

The group maintains an integrated, enterprise-wide, risk management programme (IRM). The group applies a logical, systematic and repetitive methodology to identify, analyse, assess, treat and monitor all risks, whether they are insurable or not. The risk management process is continuous, with well-defined steps, which support better decision making by contributing a greater insight into risks and their impacts. Risks from all sources are identified and once they pass the materiality threshold, a formal process begins in which various factors and consequences are identified and the correlation with other risks and the current risk mitigating strategy is reviewed. One of the challenges is to ensure that mitigating strategies are geared to deliver reliable and timely risk information to support better decision making.

The risk assessment and reporting criteria are designed to provide the Executive Committee, via the Management Risk Committee and the Board, via the Risk Committee, with a consistent, enterprise-wide perspective of the key risks. The reports which are submitted monthly to the Executive Committee and quarterly to the Risk Committee include an assessment of the likelihood and impact of risks materialising, as well as risk mitigation initiatives and their effectiveness, risk appetite and tolerance.

In conducting its review of the effectiveness of risk management, the Board considers the key findings from the ongoing monitoring and reporting processes within the combined assurance framework as well as from management. The Board also takes into account material changes and trends in the risk profile and considers whether the control system, including reporting, adequately supports the Board in achieving its risk management objectives.

SIOC, in conjunction with AASAF (a subsidiary of the ultimate holding company), provides a treasury function to the group, coordinates access to domestic and international financial markets, and manages the financial risks relating to the group's operations.

In 2015, the group started entering into iron ore swap contracts and iron ore futures contracts to manage market risk (more specifically, commodity price risk). These derivatives allow the group to more closely align prices achieved from sales transactions with reference prices set by the group. Hedge accounting is not applied. The iron ore derivatives are entered into by the group's marketing team. Each derivative is linked to a sale made to a customer. Margin accounts are used to manage the risk related to the derivatives. These margin deposits serve as collateral for the open iron ore derivative position.

The iron ore swaps and futures are included in cash and cash equivalents. Broker margin assets and liabilities are offset at year-end.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

33. FINANCIAL RISK MANAGEMENT continued

33.1 Measurement basis of financial instruments

		Fair value through profit or loss (FVTPL)[1]	Amortised cost	
Rand million	Notes	**Designated as FVTPL**		**Total**
2018				
Financial assets				
Investments held by the environmental trust	3	**621**	**–**	**621**
Trade receivables	6	**–**	**2,596**	**2,596**
Derivative financial assets	4	**47**	**–**	**47**
Other receivables	4, 6	**–**	**491**	**491**
Cash and cash equivalents	7	**27**	**11,643**	**11,670**
Financial liabilities				
Trade payables	10	**–**	**(4,071)**	**(4,071)**
Other payables	10	**–**	**(1,124)**	**(1,124)**
		695	**9,535**	**10,230**
2017				
Financial assets				
Investments held by the environmental trust[2]	3	952	–	952
Trade receivables	6	–	1,420	1,420
Other receivables[2]	4, 6	–	1,128	1,128
Cash and cash equivalents	7	–	13,874	13,874
Financial liabilities				
Trade payables	10	–	(3,911)	(3,911)
Other payables	10	–	(781)	(781)
		952	11,730	12,682

[1] The group had no financial assets and financial liabilities held for trading for the year ended 31 December 2018 and 31 December 2017.
[2] Includes amounts transferred to assets of disposal group classified as held for sale.

33.2 Credit risk

Credit risk is the risk of financial loss to the group if a counterparty to a financial instrument fails to meet its contractual obligations. The group is exposed to counterparty risk from the investments made by the environmental trust, outstanding customer balances, guarantees in favour of the group, cash deposits with financial institutions and from the use of derivative instruments. The objective of managing credit risk is to avoid losses due to a default by a counterparty, or to minimise losses in the event of a default.

33.2.1 Credit risk policy: Investments, cash and cash equivalents and derivatives

The group's policy is to strictly limit exposure to individual counterparties by reference to published short-term and long-term credit ratings from recognised credit rating agencies. The group invests in high quality investments with reputable service providers.

The group's exposure and the credit ratings of its counterparties are continuously monitored. The policy requires diversification of credit exposures amongst these financial institutions and defines acceptable daily settlement limits. Individual limits for counterparties whose rating fall within the credit rating guidelines of the group's policy are approved by the Chief Financial Officer and for counterparties with ratings outside of the policy guidelines, the limits must be approved by the Board.

33.2.2 Credit risk policy: Trade and other receivables

During 2013, the group developed its existing policy, which is still used, for the management of counterparty risk associated with trade receivables originating from export and domestic sales contracts. This policy seeks to minimise the risk of financial loss should customers become unable to meet their obligations to the group. It defines the requirement for sanctions and compliance reviews, the application of secure payment terms, primarily letters of credit from acceptable banks, as well as credit risk assessments and the establishment of credit limits prior to contracting. Credit limits are reviewed and approved at least annually and the group's exposure to its counterparties is regularly monitored at the appropriate level.

33. FINANCIAL RISK MANAGEMENT continued

33.2 Credit risk continued

33.2.3 Credit risk exposure

Rand million	Notes	2018	2017
Trade receivables[1]	6	**2,596**	1,420
Cash and cash equivalents	7	**11,643**	13,874
Investment made by the environmental trust	3	**621**	952
Other receivables	4, 6	**491**	1,128
Guarantees issued in favour of the group		**730**	730

[1] The increase in trade receivables is mainly due to an increase in sales and that not many debtors entered into discounting arrangements in December 2018, compared to the prior year.

33.2.4 Collateral

Other than the guarantees disclosed in the table above, the group does not hold any other material collateral in respect of its financial assets subject to credit risk.

33.3 Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its financial obligations as they become due. The objectives of the group's liquidity risk management processes are to maintain adequate cash and credit facilities to meet all short-term obligations and ensure that the group can meet all known and forecast strategic commitments. The Kumba treasury function must maintain cash and committed facilities to meet at least 125% of all known and forecast commitments for the next 18 months using debt instruments as deemed appropriate. As a general rule, it is the group's policy that no security be provided. However, exceptions are allowed on a case by case basis where it is required for a transaction to proceed. Facilities creating security or encumbrances over assets need the prior consent of the group's Chief Financial Officer. The group's credit facilities are detailed under note 7. Kumba was not in breach of any of its financial covenants during the year. The group's debt facilities consist of a committed R12 billion (31 December 2017: R12 billion) revolving credit facility which matures in 2020 and uncommitted facilities of R8.3 billion (31 December 2017: R8.3 billion). The committed and uncommitted facilities were undrawn at 31 December 2018 and 31 December 2017.

Financial guarantees issued to third parties need to be approved by the group's Executive Committee up to R500 million, and by the Board if the value exceeds R500 million. The group has not issued any financial guarantees in the current year (2017: Rnil).

Maturity profile of the group's financial liabilities

Rand million	Note	Within 1 year	1 to 2 years	3 or more years	Total
2018					
Financial liabilities					
Trade payables	10	**4,071**	**–**	**–**	**4,071**
Other payables	10	**1,124**	**–**	**–**	**1,124**
		5,195	**–**	**–**	**5,195**
2017					
Financial liabilities					
Trade payables	10	3,911	–	–	3,911
Other payables	10	781	–	–	781
		4,692	–	–	4,692

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

33. FINANCIAL RISK MANAGEMENT continued

33.4 Market risk

Market risk includes currency risk, interest rate risk and commodity price risk.

The use of derivatives is only permitted for hedging purposes and not to engage in speculative transactions. Hedging is conducted in very limited circumstances and in strict compliance with the group's treasury risk policy.

33.4.1 Foreign exchange risk

The group's earnings are exposed to movements in exchange rates. Kumba's iron ore export prices are determined in US Dollar and the Company negotiates iron ore prices in that currency with customers. Currency movements of the US Dollar against the Rand therefore could have a significant effect on the financial position and results of Kumba. Certain operating costs and capital expenditure are also denominated in foreign currencies. The group's functional currency for the preparation of financial accounts is the South African Rand. The group is therefore exposed to currency risk in respect of non-Rand cash flows for revenues, operating costs and capital expenditure. The group aligned both its export and import hedging policies with that of the Anglo American group. In line with the revised policy, hedging may only take place in exceptional circumstances which would require approval subject to the approval limit defined in the treasury policy. The hedging of foreign currency exposures on the group's behalf via suppliers and third parties is also prohibited.

It is the group's policy to be fully exposed to operating cost and revenue currency risk, i.e. not to hedge foreign currency operating costs and revenues. The objective of managing currency risk on capital expenditure is to broadly offset foreign currency capital expenditure with the future streams of foreign currency denominated revenues, i.e. natural or economic hedging. Net US Dollar export proceeds are repatriated and sold in equal tranches on a weekly basis at the ruling spot price.

The average Rand/US$ exchange rate for 2018 of US$1: R13.24 (2017: US$1: R13.30) has been used to translate the statement of profit or loss and statement of cash flows, whilst the statement of financial position has been translated at the closing rate at the last day of the reporting year using an exchange rate of US$1: R14.38 (2017: US$1: R12.31). The group's financial instrument exposure to currency risk, excluding derivatives, is summarised below:

Rand million	Notes	Rand	US Dollar	Euro	Other
2018					
Financial assets					
Investments held by the environmental trust	3	**621**	**–**	**–**	**–**
Trade receivables	6	**528**	**2,068**	**–**	**–**
Other receivables	4, 6	**491**	**–**	**–**	**–**
Cash and cash equivalents	7	**5,617**	**6,048**	**2**	**3**
Financial liabilities					
Trade and other payables	10	**4,881**	**867**	**–**	**–**
Net exposure		**2,376**	**7,249**	**2**	**3**
2017					
Financial assets					
Investments held by the environmental trust	3	952	–	–	–
Trade receivables	6	250	1,170	–	–
Other receivables	4, 6	1,128	–	–	–
Cash and cash equivalents	7	7,146	6,718	6	4
Financial liabilities					
Trade and other payables	10	(4,004)	(687)	(1)	–
Net exposure		5,472	7,202	5	4

Sensitivity analysis

A movement in exchange rates of 5%, with all other variables held constant, against the US Dollar would have increased/(decreased) profit or loss and equity by the amounts shown on page 77, based on the net US$ denominated financial instrument balances at 31 December 2018. The analysis has been performed on the same basis for 2017.

This analysis considers the impact of changes in foreign exchange rates on profit or loss and equity, excluding foreign exchange translation differences resulting from the translation of group entities that have a functional currency different from the presentation currency, into the group's presentation currency (and recognised in the foreign currency translation reserve).

33.4 MARKET RISK continued

33.4.1 *Foreign exchange risk continued*

Rand million	Impact on total comprehensive income and shareholders' equity	
	Increase	Decrease
2018		
US Dollar	**27**	**(24)**
2017		
US Dollar	360	(360)

33.4.2 *Interest rate risk*

The group's earnings are exposed to movements in floating interest rates on investments and floating rate debt. The Company is not exposed to fair value interest rate risk as the Company does not have any fixed interest-bearing financial instruments carried at fair value.

The group's policy is to borrow at floating rates of interest and managing interest rate risks on borrowings to minimise the after-tax cost of debt to the group. Fixed rate debt requires approval from the Board. Cash is primarily at floating rates of interest, subject to tax, legal, currency and liquidity constraints, with the primary purpose of preserving the capital value of cash and maintaining adequate liquidity levels.

Sensitivity analysis

Changes in market interest rates affect the interest income or expense of floating rate financial instruments. A change in the market interest rate of 50 basis points, with all other variables held constant, would have a zero impact on profit or loss and equity shown below, based on the net floating rate financial instrument balances at 31 December 2018. The analysis has been performed on the same basis for 2017.

Rand million	Impact on total comprehensive income and shareholders' equity	
	Increase	Decrease
2018		
Floating interest rate instruments	**–**	**–**
2017		
Floating interest rate instruments	–	–

33.4.3 *Commodity price risk*

The Company's earnings are exposed to movements in the prices of iron ore that it produces and the commodities that it purchases, for example energy and material costs. As a commodity producer the group wishes to remain exposed to individual commodity prices for the ultimate benefit of its shareholders. It is the group's policy not to hedge commodity price risks.

Certain of the group's sales are provisionally priced, meaning that the selling price is determined normally 30 to 180 days after delivery to the customer, based on quoted market prices stipulated in the contract, and as a result are susceptible to future price movements. As at 31 December 2018, R1,040 million (2017: R1,170 million) of the trade receivables balance were subject to price movements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

33.4 MARKET RISK continued

33.5 Fair value estimation

The carrying value of financial instruments not carried at fair value approximates fair value because of the short period to maturity of these instruments or as a result of market-related variable interest rates. The table below presents the group's assets and liabilities that are measured at fair value:

Rand million	Level[1]	Level 2[2]	Level 3[3]
2018			
Investments held by the environmental trust[4]	**621**	**–**	**–**
Long-term prepayments and other receivable	**–**	**–**	**47**
Derivative financial instruments classified as cash and cash equivalent	**–**	**27**	**–**
	621	**27**	**47**
2017			
Investments held by the environmental trust	952	–	–
Derivative financial instruments classified as cash and cash equivalent	–	244	–
	952	244	–

1 Level 1 fair value measurements are derived from unadjusted quoted prices in active markets for identical assets or liabilities.
2 Level 2 fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly (i.e. derived from prices).
3 Level 3 fair value measurements are derived from valuation techniques that include inputs (such as recent transactions for similar assets and iron ore price) that are not based on observable market data.
4 Excludes amounts transferred to assets of disposal group classified as held for sale.

Fair value gains and losses recognised in operating profit are disclosed in note 15 'Finance gains/(losses)'.

The iron ore derivatives are measured at fair value using market-related inputs. The measurement is therefore classified within level 2 of the fair value hierarchy. The inputs used in the model are the forward iron ore price on the inception date as well as the iron ore price on the date the fair value calculation is performed.

33.6 Capital management

The group strives to maintain strong credit ratings. In managing its capital, the group's priority is to ensure a robust statement of financial position to provide resilience in times of volatility and enable the group to take advantage of opportunities when they arise, and returning excess capital to shareholders unless there are compelling value-accretive opportunities for investment. The group maintains a healthy appetite for moderate gearing in the event of attractive merger and acquisition opportunities. The priority is to not use debt as a cushion for margin stress brought by market volatility. The group's capital expenditure is to be funded from cash generated from operations. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The group's net cash position at statement of financial position date was as follows:

Rand million	2018	2017
Cash and cash equivalents	**11,670**	13,874
Net cash	**11,670**	13,874
Total equity	**46,187**	45,546

34. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

2018 Single figure remuneration

	Guaranteed pay and benefits			Additional payments	Short-term incentive	Long-term incentive				Total emoluments
R'000	Base salary	Benefits[5]	Total guaranteed pay	Circum-stantial payments[6]	Cash bonus[7] (paid March 2019)	Deferred bonus arrange-ment (DBA)[8]	Forfeitable share plan (FSP)[9]	Long-term incentive plan (LTIP)	Total long-term incentive	2018
Executive directors										
TM Mkhwanazi[2, 10]	7,936	306	8,242	2,898	6,230	9,345	–	16,934	26,279	43,649
BA Mazarura	3,700	266	3,966	35	1,534	2,147	–	–	2,147	7,682
NB Mbazima[2]	–	–	–	–	–	–	–	86,954	86,954	86,954
FT Kotzee[1, 2]	–	–	–	–			–	26,287	26,287	26,287
Sub-total	**11,636**	**572**	**12,208**	**2,933**	**7,764**	**11,492**	**–**	**130,175**	**141,667**	**164,572**
Prescribed officers										
PJP Fourie[10]	2,447	354	2,801	678	899	1,258	760	4,140	6,158	10,536
SA Martin[3]	1,286	139	1,425	–	562	787		–	787	2,774
GM Mc Gavigan	2,892	266	3,158	838	1,093	1,530	858	–	2,388	7,477
Y Mfolo	2,383	277	2,660	599	853	1,194	721	–	1,915	6,027
TS Smit[4]	5,844	1,093	6,937	3,727	3,605	5,047	–	15,381	20,428	34,697
SV Tyobeka	2,887	266	3,153	726	1,091	1,528	857	–	2,385	7,355
CD Appollis	1,844	272	2,116	4	469	656	–	–	656	3,245
Sub-total	**19,583**	**2,667**	**22,250**	**6,572**	**8,572**	**12,000**	**3,196**	**19,521**	**34,717**	**72,111**
Total	**31,219**	**3,239**	**34,458**	**9,505**	**16,336**	**23,492**	**3,196**	**149,696**	**176,384**	**236,683**

Notes

1. Resigned on 11 May 2017. LTIP value refers to award retained in terms of separation agreement.
2. Value of LTIP shares awarded in 2016 with a performance period ending 31 December 2018 based on a 100% achievement of performance conditions and a 3-day volume weighted average price (VWAP) on 31 December 2018 of R276.94.
3. Emoluments are from 1 July 2018. Cash bonus includes a pro-rated bonus earned at Anglo Coal SA.
4. Employed by Anglo American Marketing Limited (Singapore branch) and emoluments are paid in Singapore Dollars and Pound Sterling. The DBA and LTIP shares awarded is settled in Anglo American plc shares. Included in circumstantial payments are cost of living related allowances as well as a dividend equivalent related to the Anglo American plc shares.
5. Benefits include employer contribution to retirement fund and medical aid.
6. Includes cash in lieu of dividends, leave encashment and retention bonus payment.
7. Cash bonus is based on 2018 performance – paid in March 2019.
8. Face value of DBA shares awarded in March 2019 based on the 2018 bonus value.
9. Face value of FSP shares awarded in 2018.
10. LTIP value includes the vesting value calculated at R367.53 of Anglo American shares previous awarded when employed by Anglo American Coal SA.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

34. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION continued

2017 Single figure remuneration

	Guaranteed pay and benefits			Additional payments		Short-term incentive	Long-term incentive				Total emoluments
R'000	Base salary	Benefits	Total guaranteed pay	Circum-stantial payments	Termination payments	Cash bonus (paid March 2018)	DBA	FSP	LTIP	Total long-term incentive	2017
Executive directors		[10]		[11]	[12]	[13]	[14]	[15]			
TM Mkhwanazi[10, 16]	6,924	269	7,193	–	–	4,439	6,659	–	2,866	9,525	21,157
BA Mazarura[3]	1,158	87	1,245	–	–	408	571	–	–	571	2,224
NB Mbazima[1, 16]	–	–	–	–	–	–	–	–	17,830	17,830	17,830
FT Kotzee[2, 16]	1,218	97	1,315	–	26, 697	–		–	5,512	5,512	33,524
Sub-total	**9,300**	**453**	**9,753**	**–**	**26, 697**	**4,847**	**7,230**	**–**	**26,208**	**33,438**	**74,735**
Prescribed officers											
PJP Fourie[6]	1,539	222	1,761	119	–	819	1,146	907	1,170	3,223	5,922
B Mawasha[4]	2,184	232	2,416	–	2,492	785	–	2,291	–	2,291	7,984
GM Mc Gavigan	2,695	283	2,978	80	–	1,293	1,810	1,131	–	2,941	7,292
Y Mfolo	2,259	262	2,521	1	–	887	1,242	948	–	2,190	5,599
LLA Mgadzah[5]	613	44	657	–	2,670	703	–	–	–	–	4,030
TS Smit[9]	5,844	1,078	6,922	2,483	–	2,735	3,829	–	4,599	8,428	20,568
SV Tyobeka	2,546	272	2,818	–	–	1,223	1,712	1,025	–	2,737	6,778
CD Appollis[8]	146	21	167	1,000	–	46	64	–	–	64	1,277
A Parboosing[7]	1,023	112	1,135	–	46	1,410	–	–	–	–	2,591
Sub-total	**18,849**	**2,526**	**21,375**	**3,683**	**5,208**	**9,901**	**9,803**	**6,302**	**5,769**	**21,874**	**62,041**
Total	**28,149**	**2,979**	**31,128**	**3,683**	**31,905**	**14,748**	**17,033**	**6,302**	**31,977**	**55,312**	**136, 776**

Notes

1. Resigned on 30 August 2016. Estimated LTIP value . The 1 March 2018 vesting was delayed due to employee being subject to a closed period.
2. Resigned on 11 May 2017.
3. Appointed on 1 September 2017.
4. Resigned on 30 June 2017.
5. Resigned on 28 February 2017. Cash bonus included cash payment in lieu of 2017 DBA share award.
6. Internal transfer from Anglo American Coal SA on 1 May 2017. Cash bonus included pro rata bonus earned at Anglo American Coal SA. LTIP value earned related to an award made in Anglo American plc shares, when employed at Anglo American Coal SA.
7. Resigned on 30 June 2017. Cash bonus includes cash payment in lieu of 2017 DBA share award.
8. Appointed on 1 December 2017. Circumstantial payments include once-off attraction bonus.
9. Employed by Kumba Singapore Pte and emoluments are paid in Singapore Dollars and Pound Sterling. The DBA and LTIP shares awarded is settled in Anglo American plc shares. Included in Circumstantial payments are cost of living related allowances as well as dividend equivalent related to the Anglo American plc shares.
10. Benefits include employer contribution to retirement fund and medical aid.
11. Includes long service payments, attraction bonus, Leave encashment.
12. Termination payments include Leave encashment, notice pay and severance pay.
13. Cash bonus is based on 2017 performance – paid in March 2018.
14. Face value of DBA shares awarded in 2018 based on the 2017 bonus value.
15. Face value of FSP shares awarded in 2017.
16. Value of LTIP shares awarded in 2015 with a performance period ending 31 December 2017 based on an 87.54% achievement of performance conditions and a 3-day VWAP on 31 December 2017 of R374.36.

The 2017 Single figure remuneration table was updated and refined to align with the principles of King IV Code.

34. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION continued

2018 Single figure remuneration

R'000	Directors' fees	Committee fees	Total emoluments
Non-executive directors			
MS Bomela	231	393	624
N Dlamini	231	153	384
S French	231	153	384
MSV Gantsho	1,389	–	1,389
TP Goodlace	643	422	1,065
NB Langa-Royds	250	530	780
DD Mokgatle	231	1,016	1,247
AJ Morgan[1]	94	424	518
SS Ntsaluba	231	665	896
S Pearce	231	153	384
BP Sonjica	231	495	726
Sub-total	**3,993**	**4,404**	**8,397**

[1] Resigned 11 May 2018

2017 Single figure remuneration

R'000	Directors' fees	Committee fees	Total emoluments
Non-executive directors			
F Titi[1]	952	–	952
ZBM Bassa[2]	108	432	540
MS Bomela[3]	19	25	44
N Dlamini	219	74	293
S French[4]	167	74	241
MSV Gantsho[5]	–	551	551
TP Goodlace[6]	167	414	581
NB Langa-Royds[7]	–	–	–
DD Mokgatle	219	810	1,029
AJ Morgan	219	889	1,108
SS Ntsaluba[8]	130	346	476
S Pearce[9]	167	74	241
BP Sonjica	219	291	510
AH Sangqu[10]	52	69	121
N Viljoen[11]	52	–	52
Sub-total	**2,690**	**4,049**	**6,739**

[1] Resigned on 30 September 2017
[2] Resigned on 11 May 2017
[3] Appointed on 1 December 2017
[4] Appointed on 24 March 2017
[5] Appointed on 1 August 2017
[6] Appointed on 24 March 2017
[7] Appointed on 1 December 2017. No payment for 2017 as her first payment was due in February 2018
[8] Appointed on 5 June 2017
[9] Appointed on 24 March 2017
[10] Resigned on 24 March 2017
[11] Resigned on 24 March 2017

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

34. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION continued

Interests of executive directors and the prescribed officers – unvested awards and cash flow

The interests of the executive directors and of prescribed officers in shares of the Company granted in terms of the various long-term incentive schemes are shown in the following tables.

				Number of shares						
2018	**Scheme**	**Award date**	**Earliest date of vesting**	**Opening balance on 1 January 2018**	**Granted during 2018**	**Forfeited during 2018**	**Vesting during 2018**	**Closing balance on 31 December 2018**	**Value of receipts[3] R'000**	**Estimated fair value on 31 December 2018[4] R'000**
Executive directors										
TM Mkhwanazi	DBA	1 March 2017	1 March 2020	5,205	–	–	–	5,205	154	1,441
	DBA	1 March 2017	1 March 2022	2,082	–	–	–	2,082	61	577
	DBA	1 June 2017	1 March 2020	5,171	–	–	–	5,171	153	1,432
	DBA	1 June 2017	1 March 2022	2,585	–	–	–	2,585	76	716
	DBA	9 April 2018	1 March 2012	–	12,575	–	–	12,575	182	3,483
	DBA	9 April 2018	1 March 2023	–	6,288	–	–	6,288	91	1,741
	LTIP	15 September 2016	1 March 2019	23,774	–	–	–	23,774	–	6,584
	LTIP	1 June 2017	1 March 2020	43,748	–	–	–	43,748	–	6,962
	LTIP	1 June 2018	1 March 2021	–	30,184	–	–	30,184	–	3,525
Sub-total				**82,565**	**49,047**	**–**	**–**	**131,612**	**717**	**26,461**
BA Mazarura	DBA	9 April 2018	1 March 2021	–	1,617	–	–	1,617	23	448
	LTIP	1 September 2017	1 March 2020	15,496	–	–	–	15,496	–	2,466
	LTIP	1 June 2018	1 March 2021	–	9,798	–	–	9,798	–	1,144
Sub-total				**15,496**	**11,415**	**–**	**–**	**26,911**	**23**	**4,058**
NB Mbazima	DBA[2]	1 March 2015	1 March 2018	15,543	–	–	15,543	–	4,585	–
	DBA	1 March 2015	1 March 2020	7,772	–	–	–	7,772	229	2,152
	DBA	1 April 2016	1 March 2019	143,520	–	–	–	143,520	4,235	39,746
	LTIP[1,2]	1 March 2015	1 March 2018	54,409	–	6,782	47,627	–	13,337	–
	LTIP	1 April 2016	1 March 2019	313,980	–	–	–	313,980	–	86,954
Sub-total				**535,224**	**–**	**6,782**	**63,170**	**465,272**	**22,386**	**128,852**
FT Kotzee[5]	LTIP[1]	1 March 2015	1 March 2018	16,819	–	2,096	14,723	–	5,139	–
	LTIP	1 April 2016	1 March 2019	94,918	–	–	–	94,918	–	26,287
Sub-total				**111,737**	**–**	**2,096**	**14,723**	**94,918**	**5,139**	**26,287**

1 Shares forfeited are due to performance conditions of the 2015 award not being fully met.
2 Share vesting delayed to 9 April 2018 due to employee being subject to an embargo.
3 Includes dividend payments received on 12 March 2018 and 20 August 2018 as well as face value of share vestings during 2018.
4 Sum total of the estimated fair value of unvested DBA and FSP shares, 2016 LTIP award (estimated vesting of 100%), 2017 LTIP award (estimated vesting of 65%) and 2018 LTIP award (estimated vesting of 53%). The value is based on a 3-day VWAP on 31 December 2018 of R276.94.
5 Awards were made during tenure as Executive and awards were retained in terms of separation agreement.

34. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION continued

Interests of executive directors and the prescribed officers – unvested awards and cash flow continued

2018	Scheme	Award date	Earliest date of vesting	Number of shares: Opening balance on 1 January 2018	Number of shares: Granted during 2018	Number of shares: Forfeited during 2018	Number of shares: Vesting during 2018	Number of shares: Closing balance on 31 December 2018	Value of receipts[3] R'000	Estimated fair value on 31 December 2018[4] R'000
Prescribed officers										
PJP Fourie	DBA	9 April 2018	1 March 2021	–	3,246	–	–	3,246	47	899
	FSP	1 May 2017	1 May 2020	5,281	–	–	–	5,281	156	1,463
	FSP	9 April 2018	1 March 2021	–	2,773	–	–	2,773	40	768
Sub-total				**5,281**	**6,019**	**–**	**–**	**11,300**	**243**	**3,130**
GM Mc Gavigan	DBA[2]	1 March 2015	1 March 2018	4,557	–	–	4,557	–	1,344	–
	DBA	1 April 2016	1 March 2019	21,607	–	–	–	21,607	638	5,984
	DBA	1 March 2017	1 March 2020	3,712	–	–	–	3,712	110	1,028
	DBA	9 April 2018	1 March 2021	–	5,128	–	–	5,128	74	1,420
	FSP[2]	1 March 2015	1 March 2018	2,921	–	–	2,921	–	862	–
	FSP	1 April 2016	1 March 2019	15,769	–	–	–	15,769	465	4,367
	FSP	1 March 2017	1 March 2020	5,091	–	–	–	5,091	150	1,410
	FSP	9 April 2018	1 March 2021	–	3,131	–	–	3,131	45	867
Sub-total				**53,657**	**8,259**	**–**	**7,478**	**54,438**	**3,688**	**15,076**
Y Mfolo	DBA[2]	1 March 2015	1 March 2018	3,792	–	–	3,792	–	1,119	–
	DBA	1 April 2016	1 March 2019	22,263	–	–	–	22,263	657	6,166
	DBA	1 March 2017	1 March 2020	5,352	–	–	–	5,352	158	1,482
	DBA	9 April 2018	1 March 2021	–	3,518	–	–	3,518	51	974
	FSP[2]	1 March 2015	1 March 2018	3,628	–	–	3,628	–	1,070	–
	FSP	1 April 2016	1 March 2019	19,496	–	–	–	19,496	575	5,399
	FSP	1 March 2017	1 March 2020	4,266	–	–	–	4,266	126	1,181
	FSP	9 April 2018	1 March 2021	–	2,631	–	–	2,631	38	729
Sub-total				**58,797**	**6,149**	**–**	**7,420**	**57,526**	**3,794**	**15,931**
SV Tyobeka	DBA[2]	1 March 2015	1 March 2018	4,756	–	–	4,756	–	1,403	–
	DBA	1 April 2016	1 March 2019	25,528	–	–	–	25,528	753	7,070
	DBA	1 March 2017	1 March 2020	6,200	–	–	–	6,200	183	1,717
	DBA	9 April 2018	1 March 2021	–	4,850	–	–	4,850	70	1,343
	FSP[2]	1 March 2015	1 March 2018	3,911	–	–	3,911	–	1,154	–
	FSP	1 April 2016	1 March 2019	20,959	–	–	–	20,959	619	5,804
	FSP	1 March 2017	1 March 2020	4,616	–	–	–	4,616	136	1,278
	FSP	9 April 2018	1 March 2021	–	3,126	–	–	3,126	45	866
Sub-total				**65,970**	**7,976**	**–**	**8,667**	**65,279**	**4,363**	**18,078**
CD Appollis	DBA	9 April 2018	1 March 2021	–	182	–	–	182	3	50
Sub-total				**–**	**182**	**–**	**–**	**182**	**3**	**50**
Total				**928,727**	**89,047**	**8,878**	**101,458**	**907,438**	**40,356**	**237,923**

1 Shares forfeited are due to performance conditions of the 2015 award not fully being met.
2 Share vesting delayed to 9 April 2018 due to employee being subject to an embargo.
3 Includes dividend payments received on 12 March 2018 and 20 August 2018 as well as face value of share vestings during 2018.
4 Sum total of the estimated fair value of unvested DBA and FSP shares, 2016 LTIP award (estimated vesting of 100%), 2017 LTIP award (estimated vesting of 65%) and 2018 LTIP award (estimated vesting of 53%). The value is based on a 3-day VWAP on 31 December 2018 of R276.94.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December

34. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION continued

Interests of executive directors and the prescribed officers – unvested awards and cash-flow (continued)

				Number of shares						
2017	Scheme	Award date	Earliest date of vesting	Opening balance on 1 January 2017	Granted during 2017	Forfeited during 2017	Vesting during 2017	Closing balance on 31 December 2017	Value of receipts[4] R'000	Estimated fair value on 31 December 2017[5] R'000
Executive directors										
TM Mkhwanazi	DBA	1 March 2017	1 March 2020	–	5,205	–	–	5,205	83	1,949
	DBA	1 March 2017	1 March 2022	–	2,082	–	–	2,082	33	779
	DBA	1 June 2017	1 March 2020	–	5,171	–	–	5,171	83	1,936
	DBA	1 June 2017	1 March 2022	–	2,585	–	–	2,585	41	968
	LTIP	15 September 2016	1 March 2019	23,774	–	–	–	23,774	–	8,386
	LTIP	1 June 2017	1 March 2020	–	43,748	–	–	43,748	–	14,652
Sub-total				**23,774**	**58,791**	**–**	**–**	**82,565**	**240**	**28,670**
BA Mazarura	LTIP[3]	1 September 2017	1 March 2020	–	15,496	–	–	15,496	–	5,801
Sub-total				**–**	**15,496**	**–**	**–**	**15,496**	**–**	**5,801**
NB Mbazima[6]	DBA	1 March 2014	1 March 2017	11,674	–	–	11,674	–	2,492	–
	DBA	1 March 2015	1 March 2018	15,543	–	–	–	15,543	248	5,819
	DBA	1 March 2015	1 March 2020	7,772	–	–	–	7,772	124	2,910
	DBA	1 April 2016	1 March 2019	143,520	–	–	–	143,520	2,292	53,728
	LTIP[2]	1 August 2014	1 March 2017	31,523	–	31,523	–	–	–	–
	LTIP	1 March 2015	1 March 2018	54,409	–	–	–	54,409	–	17,823
	LTIP	1 April 2016	1 March 2019	313,980	–	–	–	313,980	–	110,752
Sub-total				**578,421**	**–**	**31,523**	**11,674**	**535,224**	**5,156**	**191,032**
FT Kotzee[6]	DBA[1]	1 March 2014	1 March 2017	4,773	–	4,773	–	–	–	–
	DBA[1]	1 March 2015	1 March 2018	9,342	–	9,342	–	–	–	–
	DBA[1]	1 April 2016	1 March 2019	48,555	–	48,555	–	–	–	–
	LTIP[2]	1 August 2014	1 March 2017	9,841	–	9,841	–	–	–	–
	LTIP	1 March 2015	1 March 2018	16,819	–	–	–	16,819	–	5,509
	LTIP	1 April 2016	1 March 2019	94,918	–	–	–	94,918	–	33,481
Sub-total				**184,248**	**–**	**72,511**	**–**	**111,737**	**–**	**38,990**

[1] DBA shares forfeited as a result of termination on 11 May 2017.
[2] Shares forfeited are due to performance conditions of the 2014 award not being met.
[3] Share award allocated in terms of appointment (1 September 2017) agreement.
[4] Includes dividend payments received on 21 August 2017 as well as face value of share vestings during 2017.
[5] Sum total of the estimated fair value of unvested DBA and FSP shares, 2015 LTIP award (estimated vesting of 87.5%), 2016 LTIP award (estimated vesting of 100%) and 2017 LTIP award (estimated vesting of 100%). The value is based on a 3-day VWAP on 31 December 2017 of R374.36.
[6] Awards were made during tenure as Executive and awards were retained in terms of separation agreement.

The 2017 unvested awards and cash flow table was updated and refined to align with the principles of King IV code.

34. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION continued

Interests of executive directors and the prescribed officers – unvested awards and cash flow continued

				Number of shares						
2017	Scheme	Award date	Earliest date of vesting	Opening balance on 1 January 2017	Granted during 2018	Forfeited during 2017	Vesting during 2017	Closing balance on 31 December 2017	Value of receipts[4] R'000	Estimated fair value on 31 December 2017[5] R'000
Prescribed officers										
PJP Fourie	FSP[1]	1 May 2017	1 May 2020	–	5,281	–	–	5,281	–	1,977
Sub-total				**–**	**5,281**	**–**	**–**	**5,281**	**–**	**1,977**
B Mawasha	DBA	1 March 2014	1 March 2017	951	–	–	951	–	203	–
	DBA[2]	1 March 2015	12 April 2018	10,335	–	–	10,335	–	1,777	–
	DBA[2]	1 April 2016	1 March 2019	41,610	–	–	41,610	–	7,153	–
	DBA[2]	1 March 2017	1 March 2020	–	11,688	–	11,688	–	2,009	–
	FSP	1 March 2014	1 March 2017	4,486	–	–	4,486	–	957	–
	FSP[2]	1 March 2015	12 April 2018	8,854	–	–	8,854	–	1,522	–
	FSP[2]	1 April 2016	1 March 2019	47,447	–	–	47,447	–	8,156	–
	FSP[2]	1 March 2017	1 March 2020	–	10,314	–	10,314	–	1,773	–
Sub-total				**113,683**	**22,002**	**–**	**135,685**	**–**	**23,550**	**–**
GM Mc Gavigan	DBA	1 March 2014	1 March 2017	1,354	–	–	1,354	–	289	–
	DBA	1 March 2015	1 March 2018	4,557	–	–	–	4,557	73	1,706
	DBA	1 April 2016	1 March 2019	21,607	–	–	–	21,607	345	8,089
	DBA	1 March 2017	1 March 2020	–	3,712	–	–	3,712	59	1,390
	FSP	1 March 2014	1 March 2017	1,477	–	–	1,477	–	315	–
	FSP	1 March 2015	1 March 2018	2,921	–	–	–	2,921	47	1,094
	FSP	1 April 2016	1 March 2019	15,769	–	–	–	15,769	252	5,903
	FSP	1 March 2017	1 March 2020	–	5,091	–	–	5,091	81	1,906
Sub-total				**47,685**	**8,803**	**–**	**2,831**	**53,657**	**1,461**	**20,088**
Y Mfolo	DBA	1 March 2014	1 March 2017	1,583	–	–	1,583	–	338	–
	DBA	1 March 2015	1 March 2018	3,792	–	–	–	3,792	61	1,420
	DBA	1 April 2016	1 March 2019	22,263	–	–	–	22,263	356	8,334
	DBA	1 March 2017	1 March 2020	–	5,352	–	–	5,352	85	2,004
	FSP	1 March 2014	1 March 2017	1,843	–	–	1,843	–	393	–
	FSP	1 March 2015	1 March 2018	3,628	–	–	–	3,628	58	1,358
	FSP	1 April 2016	1 March 2019	19,496	–	–	–	19,496	311	7,299
	FSP	1 March 2017	1 March 2020	–	4,266	–	–	4,266	68	1,597
Sub-total				**52,605**	**9,618**	**–**	**3,426**	**58,797**	**1,670**	**22,012**
LLA Mgadzah	DBA[2]	1 March 2014	1 March 2017	909	–	–	909	–	194	–
	DBA[2]	1 March 2015	12 April 2018	2,949	–	–	2,949	–	629	–
	DBA[2]	1 April 2016	1 March 2019	11,082	–	–	11,082	–	2,365	–
	FSP[2]	1 March 2014	1 March 2017	1,720	–	–	1,720	–	367	–
	FSP[2]	1 March 2015	12 April 2018	3,387	–	–	3,387	–	723	–
	FSP[2]	1 April 2016	1 March 2019	18,197	–	–	18,197	–	3,884	–
Sub-total				**38,244**	**–**	**–**	**38,244**	**–**	**8,162**	**–**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December

34. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION continued
Interests of executive directors and the prescribed officers – unvested awards and cash flow continued

2017	Scheme	Award date	Earliest date of vesting	Opening balance on 1 January 2017	Granted during 2017	Forfeited during 2017	Vesting during 2017	Closing balance on 31 December 2017	Value of receipts[4] R'000	Estimated fair value on 31 December 2017[5] R'000
				Number of shares						
Prescribed officers										
SV Tyobeka	DBA	1 March 2014	1 March 2017	1,833	–	–	1,833	–	391	–
	DBA	1 March 2015	1 March 2018	4,756	–	–	–	4,756	76	1,780
	DBA	1 April 2016	1 March 2019	25,528	–	–	–	25,528	408	9,557
	DBA	1 March 2017	1 March 2020		6,200	–	–	6,200	99	2,321
	FSP	1 March 2014	1 March 2017	1,981	–	–	1,981	–	423	–
	FSP	1 March 2015	1 March 2018	3,911	–	–	–	3,911	62	1,464
	FSP	1 April 2016	1 March 2019	20,959	–	–	–	20,959	335	7,846
	FSP	1 March 2017	1 March 2020		4,616	–	–	4,616	74	1,728
Sub-total				**58,968**	**10,816**	**–**	**3,814**	**65,970**	**1,868**	**24,696**
A Parboosing	DBA[3]	1 March 2015	12 April 2018	1,217	–	–	1,217	–	268	–
	DBA[3]	1 April 2016	1 March 2019	18,688	–	–	18,688	–	4,117	–
	FSP[3]	1 March 2014	1 March 2017	2,039	–	–	2,039	–	449	–
Sub-total				**21,944**	**–**	**–**	**21,944**	**–**	**4,834**	**–**
Total				**1,119,572**	**130,807**	**104,034**	**217,618**	**928,727**	**46,941**	**333,266**

1 Share award made based on individual performance and contribution to the business performance at Anglo American Coal SA.
2 Shares vested on termination date (28 February 2017), as per separation agreement.
3 Shares vested on day notice of termination was served, as per separation agreement.
4 Includes dividend payments received on 21 August 2017 as well as face value of share vestings during 2017.
5 Sum total of the estimated fair value of unvested DBA and FSP shares, 2015 LTIP award (estimated vesting of 87.5%), 2016 LTIP award (estimated vesting of 100%) and 2017 LTIP award (estimated vesting of 100%). The value is based on a 3-day VWAP on 31 December 2017 of R374.36.

The 2017 unvested awards and cash flow table was updated and refined to align with the principles of King IV code.

34. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION continued

Directors' beneficial interest in Kumba

The aggregate beneficial interest in Kumba at 31 December 2018 of the directors of the Company and their immediate families (none of whom has a holding greater than 1%) in the issued shares of the Company are detailed below. There have been no material changes to the shareholding since 2018 and the date of approval of the annual financial statements.

	2018			2017		
Capacity and name	**Number of shares**	**Long-term incentive scheme shares**	**Total beneficial interest**	Number of shares	Long-term incentive scheme shares	Total beneficial interest
Executive directors[1]						
TM Mkhwanazi[2]	–	131,612	131,612	–	82,565	82,565
BA Mazarura[2]	–	26,911	26,911	–	15,496	15,496
NB Mbazima[2]	–	465,272	465,272	–	535,224	535,224
FT Kotzee[2]	–	94,918	94,918	–	111,737	111,737
Sub-total	**–**	**718,713**	**718,713**	–	745,022	745,022
Non-executive director						
DD Mokgatle[3]	428	–	428	428	–	428
Sub-total	**428**	**–**	**428**	428	–	428
Total	**428**	**718,713**	**719,141**	428	745,022	745,450

[1] Direct interest held by executive directors.
[2] Granted under the BSP as well as the LTIP and disclosed in the tables above.
[3] Total indirect interest held by spouse.

STATEMENT OF FINANCIAL POSITION
as at 31 December

Rand million	Notes	**2018**	2017
ASSETS			
Investments in subsidiaries	1	**262**	290
Non-current assets		**262**	290
Cash and cash equivalents	2	**233**	207
Current assets		**233**	207
Total assets		**495**	497
EQUITY AND LIABILITIES			
Share capital and premium	3	**367**	367
Reserves		**(63)**	(48)
Total equity		**304**	319
Other payables		**168**	155
Current tax liabilities		**22**	23
Current liabilities		**190**	178
Total liabilities		**190**	178
Total equity and liabilities		**494**	497

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December

Rand million	Notes	2018	Restated 2017
Revenue	4	**9,509**	5,144
Net operating expenses	5	**(57)**	(71)
Operating profit		**9,452**	5,073
Finance income		**58**	49
Profit before taxation		**9,510**	5,122
Taxation	6	**(16)**	(14)
Profit for the year		**9,494**	5,108
Total comprehensive income for the year		**9,494**	5,108

The Company did not have any non-owner changes in equity during the year other than the profit for the year, therefore no separate statement of other comprehensive income is presented for the years ended 31 December 2018 and 31 December 2017.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

Rand million	Share capital (note 3)	Share premium (note 3)	Equity-settled share-based payment reserve	Retained earnings	Total
Balance at 31 December 2016	3	364	32	(79)	320
Equity-settled share-based payments	–	–	43	–	43
Vesting of shares under employee share incentive schemes	–	–	(8)	–	(8)
Total comprehensive income for the year	–	–	–	5,108	5,108
Unwind of Envision	–	–	–	(5,144)	(5,144)
Balance at 31 December 2017	**3**	**364**	**67**	**(115)**	**319**
Equity-settled share-based payments	**–**	**–**	**10**	**–**	**10**
Vesting of shares under employee share incentive schemes	**–**	**–**	**(20)**	**4**	**(16)**
Liquidation of companies[1]	**–**	**–**	**–**	**3**	**3**
Total comprehensive income for the year	**–**	**–**	**–**	**9,494**	**9,494**
Dividends paid	**–**	**–**	**–**	**(9,505)**	**(9,505)**
Balance as at 31 December 2018	**3**	**364**	**57**	**(120)**	**304**

[1] Relates to liquidation of the subsidiary – Kumba International BV.

STATEMENT OF CASH FLOWS

for the year ended 31 December

Rand million	Notes	**2018**	Restated 2017
Cash flows from operating activities			
Cash generated from operations	7	**9,478**	5,202
Finance income received		**58**	49
Taxation paid	8	**(17)**	(12)
Dividends paid		**(9,505)**	(5,144)
		14	24
Cash flows utilised in investing activities			
Loan repaid by subsidiary		**28**	–
		28	–
Cash flows utilised in financing activities			
Vesting of shares under employee share incentive schemes		**(16)**	(8)
		(16)	(8)
Net increase in cash and cash equivalents		**26**	16
Cash and cash equivalents at beginning of year		**207**	191
Cash and cash equivalents at end of year	3	**233**	207

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December

1. INVESTMENTS IN SUBSIDIARIES

Rand million	2018	2017
Reflected as non-current assets		
Shares at cost	**3**	3
Long-term loans to subsidiary	**259**	287
Net investments in subsidiaries	**262**	290

Investments in subsidiaries are accounted for at cost.

The loan to the subsidiary, SIOC, is interest bearing and does not have any repayment terms.

For further details of interests in significant subsidiaries, refer to Annexure 1.

2. CASH AND CASH EQUIVALENTS

Rand million	2018	2017
Cash	**233**	207
Currency analysis of cash and cash equivalents		
Rand	**233**	207

Credit risk
Cash and cash equivalents are held with financial institutions with long-term investment grade credit rating and with the capacity for payment of financial commitments considered strong.

Fair value of cash and cash equivalents
The carrying amount of cash and cash equivalents approximate their fair value because of the short period to maturity of these instruments.

3. SHARE CAPITAL AND SHARE PREMIUM

Number of shares	2018	2017
Authorised		
500,000,000 ordinary shares of R0.01 each	**500,000,000**	500,000,000
Issued		
Ordinary shares of R0.01 each	**322,085,974**	322,085,974
Reconciliation of issued shares		
Number of shares at beginning of year	**322,085,974**	322,085,974
Number of shares at end of year	**322,085,974**	322,085,974

For further detail refer to the group annual financial statements, note 20.

Rand million	2018	2017
Reconciliation of share capital and premium		
Share capital	**3**	3
Share premium	**364**	364
	367	367

4. REVENUE

Rand million	2018	2017
Dividends received from subsidiaries[1] (refer to note 10)	**9,509**	5,144

[1] Revenue constitutes dividends received, refer to note 9.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December

5. OPERATING (EXPENSES)/INCOME

Rand million	2018	2017
Cost by nature		
Salaries and wages	**(30)**	(40)
Equity-settled share-based payments	**(10)**	(43)
Pension, medical and termination costs	**–**	(2)
General charges	**(34)**	(6)
Cost recoveries	**17**	20
	(57)	(71)
The above costs are stated after including:		
Directors' remuneration[1]	**31**	80
Executive directors		
Emoluments received as directors of the Company	**15**	68
Bonuses and cash incentives	**8**	5
Non-executive directors – emoluments as directors of the Company	**8**	7

[1] Refer to note 34 in the Kumba group financial statements.

6. TAXATION

Rand million	2018	2017
Charge to income		
SA normal tax		
Current year	**16**	13
Deferred tax	**–**	1
Total	**16**	14

Reconciliation of taxation rates	**%**	%
Taxation as a percentage of profit before taxation	**0.1**	0.3
Taxation effect of:		
Disallowable expenditure[1]	**(0.1)**	(0.2)
Exempt income[1]	**28.0**	28.1
Equity-settled share-based payment	**–**	(0.2)
Standard tax rate	**28.0**	28.0

[1] These percentages comprise many immaterial amounts and are therefore aggregated, no individual disclosure is required.

7. CASH GENERATED BY OPERATIONS

Rand million	2018	2017
Operating profit	**9,452**	5,073
Adjusted for:		
Share-based payment expense	**10**	43
Working capital movements:		
Decrease in financial assets	**–**	8
Increase in other payables	**16**	7
Cash flows utilised in operating activities	**9,478**	5,202

8. NORMAL TAXATION PAID

Rand million	2018	2017
Current tax liability at beginning of year	**23**	22
Amounts charged to the statement of profit or loss	**16**	13
Amount paid during the year	**(17)**	(12)
Current tax liability at end of year	**22**	23

9. PRIOR YEAR RESTATEMENT OF DIVIDENDS RECEIVED

Kumba receives most of its income from dividends. The most material of this originates from its 76% shareholding in SIOC. Historically, this was presented as Income from investment in the Company's statement of profit or loss. The group re-evaluated the nature of the Kumba stand-alone company's business, and have concluded that the business of the Company is that of an investment entity and, as such, the dividends received are in fact revenue and not other income.

The above has resulted in the restatement of the Statement of profit or loss and other comprehensive income, to reclassify dividends received, from Income from investments, to revenue. The impact is that the 2017 prior year operating loss of R71 million was restated to an operating profit of R5.1 billion. This, however, did not have any impact on profit of the year, total comprehensive income for the year, retained earnings or the statement of financial position.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December

10. RELATED-PARTY TRANSACTIONS

During the year Kumba, in the ordinary course of business, entered into various sales and purchases of goods and services with its subsidiaries, SIOC and Main Street 576 Proprietary Limited, as well as its holding company, Anglo American plc. Certain deposits and borrowings are also placed with the holding company. The holding company also acts as an agent for the Company in respect of all foreign exchange transactions and performs a back office treasury function for the group. The effect of these transactions is included in the results of the group. These transactions occurred under terms that are no less favourable than those arranged with third parties.

Holding company

Anglo American plc is Kumba's ultimate holding company. The interest in the group is held through a 69.71% holding by Anglo South Africa Proprietary Limited (2017: 69.71%).

Subsidiaries

Details of investments in and loans to/from subsidiaries are disclosed in Annexure 1.

Shareholders

The principal shareholders of the Company are detailed under 'Shareholder analyses' on pages 103 and 104.

Material related-party transactions

Rand million	2018	2017
Purchase of goods and services and finance charges		
Holding company[1]	**19**	*
Purchase of goods and services		
SIOC[2]	**46**	23
Sale of goods and services and finance income		
SIOC[3]	**60**	58
Amounts owed by related parties		
SIOC	**259**	287
Dividends paid to/(by) Kumba		
SIOC	**9,505**	5,144
Holding company	**(6,626)**	(3,586)

* Value is less than R1 million.
[1] Goods and services comprise directors' fees for M Dlamini paid directly to Anglo Operations Limited.
[2] Goods and services purchased comprise payroll-related costs recovered by SIOC.
[3] Goods and services comprise a management fee charged by Kumba to SIOC and finance income earned on excess cash loaned by SIOC.

11. EVENTS AFTER THE REPORTING PERIOD

Dividend

A final cash dividend of R15.73 per share was declared by the Board on 15 February 2019 from profits accrued during the financial year ended 31 December 2018. The total cash dividend for the year amounted to R30.24 per share. The estimated total cash flow of the final Kumba dividend, payable on 18 March 2019, is R5.1 billion.

The directors are not aware of any other matter or circumstance arising since the end of the year and up to the date of this report, not otherwise dealt with in this report.

ANNEXURE 1:

INVESTMENTS IN SUBSIDIARIES
for the year ended 31 December

Rand '000	Country of incorporation[1]	Principal place of business[1]	Nature of business[2]	Percentage holding	Nominal issued capital R	Investments at cost 2018	2017	Loans to/(from) subsidiaries 2018	2017
Direct investments									
Sishen Iron Ore Company Proprietary Limited	RSA	RSA	A	76%	100	**3,009**	3,009	**259,243**	286,676
KIO Investment Holdings Proprietary Limited	RSA	RSA	C	100%	1,000	**–**	–	**–**	–
Kumba International BV	NE	NE	B	100%	*	**–**	276	**–**	–
Total investments in subsidiaries						**3,009**	3,285	**259,243**	286,676

* Kumba International BV was liquidated.

Indirect subsidiaries

	Country of incorporation[1]	Principal place of business[1]	Nature of business[2]	Percentage holding
Kumba International Trading	JE	UK	B	100%
Kumba Iron Ore Holdings SARL	NE	LUX	C	100%
KIO Exploration Liberia SARL	LUX	LUX	C	100%
Kumba Singapore Pte Limited	SNG	SNG	B	100%
Sibelo Resources Development Proprietary Limited	RSA	RSA	C	100%

Special purpose entities[3]

	Country of incorporation[1]	Principal place of business[1]	Nature of business[2]	Percentage holding
Kumba Iron Ore Rehabilitation Trust[4]	RSA	RSA	D	100%
Kumba BSP Trust[4]	RSA	RSA	E	100%
				100%
Thabazimbi Rehabilitation Trust	RSA	RSA	D	100%

[1] RSA – South Africa, NE – Netherlands, LUX – Luxembourg, SNG – Singapore, JE – Jersey
[2] A – Mining, B – Iron ore marketing and sales, C – Dormant, D – Mine closure fund, E – Share incentive scheme administrator.
[3] Controlled by Kumba.
[4] The trusts have a 28 February year-end as it is a requirement from the South African Revenue Service. Where the financial year-ends are not co-terminous with that of the group, financial information has been obtained from published information on management accounts as appropriate.

ANNEXURE 2:

INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS
for the year ended 31 December

Rand '000	Country of incorporation[1]	Principal place of business[1]	Nature of business[2]	Number of shares held	Percentage holding	Investment at cost	Group loan balance 2018	Group loan balance 2017	Company loan balance 2018	Company loan balance 2017
ASSOCIATES										
Unlisted										
Manganore Iron Mining Limited	RSA	RSA	B	25,000	50%	2	**–**	–	**–**	–
INCORPORATED JOINT VENTURES										
Unlisted										
Polokwane Iron Ore Company Proprietary Limited	RSA	RSA	A	4,000	50%	3,740	**110,994**	110,957	**–**	–
Anglo American Kumba Exploration Liberia Limited	LIB	LIB	A	25,000	50%	26	**–**	–	**–**	–
						3.766	**110,994**	110,957	**–**	–

[1] RSA – South Africa, LIB – Liberia.
[2] A – Exploration, B – Dormant.

The financial year-end for Manganore Iron Ore Mining Limited is 30 June. Where the financial year-ends are not co-terminous with that of the group, financial information has been obtained from published information or management accounts as appropriate.

ANNEXURE 3:

EQUITY-SETTLED SHARE-BASED PAYMENT SCHEMES
for the year ended 31 December

EMPLOYEE SHARE INCENTIVE SCHEMES

Employees of the group participate in the following share incentive schemes:

- Bonus Share Plan
- Long-Term Incentive Plan (executive directors)
- Employee Benefit Share Option Scheme (Karolo)

(1) BONUS SHARE PLAN (BSP)

Description of scheme

The BSP for executive directors and senior employees was implemented during 2009. The adoption and implementation of the scheme was approved by shareholders at the AGM on 20 March 2009. The BSP is offered to senior managers and key executives who have the opportunity and the responsibility to contribute towards Kumba's overall strategic objectives. The BSP has two components:

- a payment of an annual cash bonus; and
- a forfeitable award of shares linked to the participant's annual cash bonus award known as bonus shares.

The number of bonus shares awarded is determined with reference to the amount of the annual cash bonus an employee receives which is directly linked to the employee's personal performance and potential. The shares are held by an escrow agent and released to the employee three years after the award date (subject to continuous employment). During the three-year period, the employee is entitled to all rights attaching to the bonus shares including dividend entitlements and voting rights.

Movement in the number of share awards granted

	2018 award	2017 award	2016 award	2015 award	2014 award
Balance at beginning of year	**–**	381,817	1,639,192	294,738	–
Bonus shares awarded	**282,709**	–	–	–	–
Awards forfeited	**(2,578)**	(2,420)	(79,705)	–	–
Awards exercised[1]	**(9,712)**	(14,196)	(73,294)	–	–
Awards exercised on vesting	**–**	(9,398)	(597)	(286,966)	–
Balance at 31 December 2018	**270,419**	**355,803**	**1,485,596**	**7,772**	**–**
Balance at beginning of year		–	1,982,599	369,366	212,803
Bonus shares awarded		422,723	–	–	–
Awards forfeited		(6,052)	(193,919)	(34,381)	(14,863)
Awards exercised[1]		(34,854)	(148,891)	(33,601)	(2,035)
Awards exercised on vesting		–	(597)	(6,646)	(195,905)
Balance at 31 December 2017		**381,817**	**1,639,192**	**294,738**	**–**

[1] This relates to the pro rata portion of the bonus shares granted to employees who are considered good leavers in terms of the share rules.

	Number of awards	Expiry date
Vesting period of awards granted		
Less than 1 year	1,449,567	2019
1 to 2 years	342,942	2020
2 to 5 years	327,081	2021 – 2023

Annexures

ANNEXURE 3:

EQUITY-SETTLED SHARE-BASED PAYMENT SCHEMES CONTINUED
for the year ended 31 December

(1) BONUS SHARE PLAN (BSP) continued

Valuation of scheme

The share awards granted under the BSP are considered equity-settled.

The share-based payment expense is measured using the fair value of the share awards issued under the BSP which was determined using the grant date share price of Kumba's shares.

	2018 award	2017 award	2016 award	2015 award
Fair value assumptions				
Share price on date of grant (Rand)	**331.35**	213.43	84.39	227.26
Expected share option life (years)	**3**	3	3	3
Expected dividend yield (%)	**5.00**	5.00	–	–

The risk-free interest rate for the period within the contractual term of the awards is based on South African government bonds.

The historical volatility of the Kumba share price is used in determining the expected volatility.

(2) LONG-TERM INCENTIVE PLAN (LTIP)

Description of scheme

Senior employees receive annual grants of conditional awards of Kumba shares.

The conditional award will vest after the performance period of three years, and to the extent that specific performance conditions have been satisfied. No retesting of the performance conditions is allowed. The performance conditions for the LTIP awards made to date are subject to the achievement of stretching performance targets relating to total shareholder return (TSR) and to an operating measure, currently return on capital employed (ROCE), over a fixed three-year period.

The performance conditions will determine if, and to what extent, the conditional award will vest. Upon vesting the employee will be entitled to shares in Kumba to settle the value of the vested portion of the conditional award. The conditional awards which do not vest at the end of the three-year period will lapse.

Upon retrenchment, ill-health, disability, retirement or death a proportion of unvested conditional awards shall vest on the date of cessation of employment. The proportion of awards that vest under the LTIP would reflect the number of months' service and in the opinion of the Remuneration Committee the extent to which the performance conditions have been met. On resignation or termination of employment all unexercised (vested and unvested) conditional awards will lapse on the date of cessation of employment.

The main intention of the LTIP is to settle the benefits by delivering Kumba shares to employees.

Movement in the number of conditional awards granted

	Number of conditional awards			
	2018 award	2017 award	2016 award	2015 award
Balance at beginning of year	**–**	59,244	432,672	71,228
Conditional awards issued	**39,982**	–	–	(62,350)
Conditional awards forfeited	**–**	–	–	(8,878)
Balance at 31 December 2018	**39,982**	59,244	432,672	–
Balance at beginning of year	**–**	59,244	432,672	71,228
Conditional awards issued	**59,244**	–	–	–
Balance at 31 December 2017	**59,244**	59,244	432,672	71,228

(2) LONG-TERM INCENTIVE PLAN (LTIP) continued

	Number of conditional awards	Expiry date
Vesting period of conditional awards granted		
Less than 1 year	432,672	2019
1 to 2 years	59,244	2020
2 to 5 years	39,982	2021

VALUATION OF SCHEME

The conditional awards granted under the LTIP are considered equity-settled.

The share-based payment expense is measured using the fair value of the conditional award issued under the LTIP which was determined using the Monte Carlo option pricing model.

	2018 award	2017 award	2016 award	2015 award
Fair value assumptions				
Share price on date of grant (Rand)	**288.86**	213.43	84.39	84.39
Annualised expected volatility (%)	**50.00**	50.00	50.00	50.00
Expected share option life (years)	**3.00**	3.00	3.00	3.00
Expected dividend yield (%)	**5.00**	5.00	—	—
Risk-free interest rate (%)	**7.60**	7.80	7.48	7.48

The risk-free interest rate for the period within the contractual term of the awards is based on South African government bonds.

The historical volatility of the Kumba and, where applicable, the Kumba Resources share price is used in determining the expected volatility.

(3) SIOC EMPLOYEE BENEFITS SCHEME (KAROLO)

Description of scheme

Karolo comprises an annual grant of free Kumba shares to qualifying employees which will vest after three years. The shares are held by an agent and released to the employee three years after the award date, subject to continuous employment. During the three-year period, the employee is entitled to all rights attaching to the bonus shares, including dividend entitlements and voting rights.

The scheme became effective in August 2018 and the first award was successfully made on 6 August 2018 and the beneficiaries shared in the interim dividend.

Movement in the number of share awards granted

	Number of awards
	2018 award
Balance at beginning of year	**–**
Shares awarded	**320,318**
Awards exercised[1]	**(603)**
Balance at 31 December 2018	**319,715**

[1] This relates to the pro rata portion of the shares granted to employees who are considered good leavers in terms of the share rules.

ANNEXURE 3:
EQUITY-SETTLED SHARE-BASED PAYMENT SCHEMES CONTINUED
for the year ended 31 December

(3) SIOC EMPLOYEE BENEFITS SCHEME (KAROLO) continued

	Number of awards	Expiry date
Vesting period of awards granted		
Less than 1 year	–	2019
1 to 2 years	–	2020
2 to 5 years	319,715	2021 – 2023

VALUATION OF SCHEME

The share awards granted under the Karolo scheme are considered equity-settled.

The share-based payment expense is measured using the fair value of the share award issued under the Karolo scheme which was determined using the grant date share price of Kumba's shares.

	2018 award
Fair value assumptions	
Share price on date of grant (Rand)	**280.75**
Expected share option life (years)	**3**
Expected dividend yield (%)	**5.00**

The risk-free interest rate for the period within the contractual term of the awards is based on South African government bonds.

The historical volatility of the Kumba share price is used in determining the expected volatility.

The aggregate number of shares which may be allocated under the BSP, LTIP and Karolo when added to the total number of unvested conditional awards and share options allocated to employees under any other managerial share scheme, may not exceed 31,194,612 shares. At the end of 2018, a total of 28,223,409 shares (2017: 28,567,635 shares) were available for utilisation under the share incentive schemes.

ANNEXURE 4:

NEW AND AMENDED STANDARDS NOT YET ADOPTED BY THE GROUP

A number of new standards and amendments to standards and interpretations are in issue but are not effective for annual periods beginning on 1 January 2018 and have not been applied in preparing these consolidated financial statements.

IFRS 16 – *LEASES*

IFRS 16 – *Leases* will become effective for the group from 1 January 2019, replacing IAS 17 – *Leases*. IFRS 16 sets out updated requirements on recognition and measurement of leases. The group has elected to adopt the modified retrospective transition approach and therefore the cumulative effect of transition to IFRS 16 will be recognised in retained earnings and the comparative period will not be restated.

The principal impact of IFRS 16 will be to change the accounting treatment by lessees of leases currently classified as operating leases. Lease agreements will give rise to the recognition by the lessees of a right of use asset and a related liability for future lease payments.

Based on the impact assessment performed, the application of IFRS 16 is expected to have a significant impact on the group's consolidated financial statements, particularly in relation to the recognition of the right of use assets and lease liabilities that were previously treated as operating leases.

The most significant expected impact of transitioning to IFRS 16 in the 2019 financial year, based upon Kumba's current contractual arrangements, is estimated to be:

- recognising a lease liability of approximately R400 million to R500 million
- recognising a right of use of approximately R350 million to R450 million, the right of use asset will principally relate to rental of properties and mining equipment
- the balance representing an adjustment to retained earnings

Depreciation of the right of use asset and the finance charge representing the unwinding of the discount on the lease liability will be recorded in the statement of profit or loss. The impact of the standard on EBITDA and profit before tax following adoption is not expected to be significant although the presentation of the leases in the statement of profit or loss will change.

Management will continue to assess the implications of IFRS 16 on any new contracts or modifications to existing contracts, which may cause the financial impact to differ from the estimates provided above. The group will continue to work on the necessary changes to internal systems and processes based on the impact assessment of the implications of IFRS 16.

ANNUAL IMPROVEMENTS TO IFRS STANDARDS 2015 – 2017 CYCLE

The improvements contain the following amendments to IFRSs:

- IFRS 3 – *Business Combinations* clarifies that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.
- IFRS 11 – *Joint Arrangements* clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 – *Income Taxes* clarifies that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.
- IAS 23 – *Borrowing Costs* clarifies that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments are all effective for annual periods beginning on or after 1 January 2019.

These improvements are not expected to have any significant impact on the financial statements.

ANNEXURE 4:

NEW AND AMENDED STANDARDS NOT YET ADOPTED BY THE GROUP CONTINUED

AMENDMENTS TO IFRS 9 – *FINANCIAL INSTRUMENTS (PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION)*

This amendment addresses the concerns about how IFRS 9 classifies particular prepayable financial assets. In addition, the amendments clarifies an aspect of the accounting for financial liabilities following a modification. The amendments are to be applied retrospectively for periods beginning on or after 1 January 2019.

These amendments are not expected to have any significant impact on the financial statements.

AMENDMENTS TO IAS 28 – *INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (LONG-TERM INTEREST)*

These amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments are to be applied retrospectively for periods beginning on or after 1 January 2019.

These amendments are not expected to have any significant impact on the financial statements.

AMENDMENTS TO IAS 19 – *EMPLOYEE BENEFITS (PLAN AMENDMENTS)*

These amendments are to harmonise accounting practices and to provide more relevant information for decision-making. The amendments are to be applied to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019.

These amendments will not have any impact on the financial statements as the group does not have post-employment benefits.

IFRIC 23 – *UNCERTAINTY OVER INCOME TAX TREATMENTS*

IFRIC 23 clarifies the accounting for uncertainties in income taxes. IFRIC 23 is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted.

This standard in unlikely to have any significant impact on the financial statements.

SHAREHOLDER ANALYSIS

Register date: 28 December 2018
Issued share capital: 322,085,974

	Number of shareholdings	%	Number of shares	%
SHAREHOLDER SPREAD				
1 – 1,000 shares	13,259	88.72	2,498,562	0.78
1,001 – 10,000 shares	1,264	8.46	3,862,181	1.20
10,001 – 100,000 shares	334	2.24	10,387,335	3.23
100,001 – 1,000,000 shares	77	0.52	21,372,071	6.64
1,000,001 shares and over	10	0.07	283,965,825	88.16
Totals	**14,944**	**100.00**	**322,085,974**	**100.00**
DISTRIBUTION OF SHAREHOLDERS				
Strategic investor	1	0.01	224,535,915	69.71
Government	3	0.02	41,509,974	12.89
Banks/brokers	307	2.05	30,909,444	9.60
Close corporations	88	0.59	71,321	0.02
Endowment funds	27	0.18	165,791	0.05
Individuals	12,968	86.78	7,119,606	2.21
Insurance companies	32	0.21	1,984,392	0.62
Investment companies	1	0.01	377	0.00
Medical schemes	4	0.03	17,611	0.01
Mutual funds	191	1.28	6,145,421	1.91
Other corporations	54	0.36	40,943	0.01
Private companies	225	1.51	466,324	0.14
Public companies	6	0.04	54,586	0.02
Retirement funds	81	0.54	6,853,218	2.13
Share trusts	3	0.02	445,574	0.14
Sovereign wealth funds	9	0.06	821,467	0.26
Trusts	944	6.32	944,010	0.29
Totals	**14,944**	**100.00**	**322,085,974**	**100.00**
PUBLIC/NON-PUBLIC SHAREHOLDERS				
Non-public shareholders	**14**	**0.09**	**267,925,219**	**83.18**
Directors, associates and executives of the Company	8	0.05	225,090	0.07
Strategic holdings	2	0.01	266,034,530	82.59
Related holdings	4	0.03	1,665,599	0.52
Public shareholders	**14,930**	**99.91**	**54,160,755**	**16.82**
Totals	**14,944**	**100.00**	**322,085,974**	**100.00**

	Number of shares	%
BENEFICIAL SHAREHOLDERS HOLDING 2% OR MORE		
Anglo American	224,535,915	69.71
Industrial Development Corporation of South Africa Limited	41,498,615	12.88
Totals	**266,034,530**	**82.59**

SHAREHOLDER ANALYSIS CONTINUED

Register date: 28 December 2018

Issued share capital: 322,085,974

BREAKDOWN OF NON-PUBLIC HOLDINGS

	Number of shares	%
DIRECTORS, ASSOCIATES AND EXECUTIVES OF THE COMPANY		
Mazarura, BA (Chief Financial Officer)	**1,617**	**0.00**
Mazarura, BA	1,617	0.00
Mkhwanazi,TM (Chief Executive)	**33,906**	**0.01**
Mkhwanazi,TM	33,906	0.01
McGavigan, GM	**54,438**	**0.02**
McGavigan, GM	54,438	0.02
Mokgatle, DD	**428**	**0.00**
Mokgatle, LA	428	0.00
Fourie, PJP	**11,300**	**0.00**
Fourie, PJP	11,300	0.00
Tyobeka, SV	**65,875**	**0.02**
Tyobeka, SV	65,279	0.02
Tyobeka, SV	596	0.00
Mfolo, Y	**57,526**	**0.02**
Mfolo, Y	57,526	0.02
Totals	**225,090**	**0.07**
STRATEGIC HOLDINGS		
Anglo South Africa Propriety Limited	224,535,915	69.71
Industrial Development Corporation of South Africa Limited	41,498,615	12.88
Totals	**266,034,530**	**82.59**
RELATED HOLDINGS		
Mercantile Shareholder Nominees – Exxaro	**1,220,025**	**0.38**
Mercantile Shareholder Nominees – Exxaro	1,220,025	0.38
Kumba Bonus Share Plan Trust	**100,778**	**0.03**
Kumba Bonus Share Plan Trust	100,778	0.03
SIOC Employee Benefit Trust – Allocated	**319,715**	**0.10**
SIOC Employee Benefit Trust – Allocated	319,715	0.10
SIOC Employee Benefit Trust – Unallocated	**25,081**	**0.01**
SIOC Employee Benefit Trust – Unallocated	25,081	0.01
Totals	**1,665,599**	**0.52**

BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 2% OR MORE

	Number of shares	%
BENEFICIAL SHAREHOLDERS		
Anglo American	**224,535,915**	**69.71**
Anglo South Africa Proprietary Limited	224,535,915	69.71
Industrial Development Corporation of South Africa Limited	**41,498,615**	**12.88**
Industrial Development Corporation of South Africa Limited	41,498,615	12.88
Totals	**266,034,530**	**82.59**

ADMINISTRATION

COMPANY REGISTRATION NUMBER
2005/015852/06
JSE share code: KIO
ISIN code: ZAE000085346

COMPANY SECRETARY AND REGISTERED OFFICE
Celeste Appollis
Centurion Gate – Building 2B
124 Akkerboom Road
Centurion, Pretoria, 0157
South Africa
Tel: +27 (0) 12 683 7000
Fax: +27 (0) 12 683 7009
celeste.appollis@angloamerican.com

AUDITORS
Deloitte & Touche
Chartered Accountants (SA)
Registered Auditors
Deloitte Place, The Woodlands Office Park
20 Woodlands Drive, Woodmead, 2146
South Africa
Private Bag X46, Gallo Manor, 2052

ASSURANCE PROVIDERS
PricewaterhouseCoopers
Registered Auditors
4 Lisbon Lane
Waterfall City, 2090
South Africa
Private Bag X36, Sunninghill, 2157
Tel: +27 (0) 11 797 4000
Fax: +27 (0) 11 797 5800

SPONSOR
RAND MERCHANT BANK
(A division of FirstRand Bank Limited)
Registration number: 1929/001225/06
1 Merchant Place, corner Rivonia Road and Fredman Drive
Sandton, 2146, South Africa
PO Box 786273, Sandton, 2146

UNITED STATES ADR DEPOSITORY
BNY Mellon
Depositary Receipts Division
101 Barclay Street, 22nd Floor
New York, 10286
Tel: +1 (0) 212 815 2732
Fax: +1 (0) 212 571 3050/1/2
www.adrbny.com

TRANSFER SECRETARIES
Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue
Rosebank, 2196, South Africa
PO Box 61051, Marshalltown, 2107

INVESTOR RELATIONS
Penny Himlok
Investor Relations Manager
Tel: +27 (0) 12 683 7000
penny.himlok@angloamerican.com

FORWARD-LOOKING STATEMENTS
Certain statements made in this report constitute forward-looking statements. Forward-looking statements are typically identified by the use of forward-looking terminology such as 'believes', 'expects', 'may', 'will', 'could', 'should', 'intends', 'estimates', 'plans', 'assumes' or 'anticipates' or the negative thereof, or other variations thereon, or comparable terminology, or by discussions of, for example, future plans, present or future events, or strategy that involves risks and uncertainties. Such forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control and all of which are based on the Company's current beliefs and expectations about future events. Such statements are based on current expectations and, by their nature, are subject to a number of risks and uncertainties that could cause actual results and performance to differ materially from any expected future results or performance, expressed or implied, by the forward-looking statement. No assurance can be given that future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Company and its subsidiaries. The forward-looking statements contained in this report speak only as of the date of this report and the Company undertakes no duty to update any of them and will not necessarily do so, in light of new information or future events, except to the extent required by applicable law or regulation.

Kumba Iron Ore
Centurion Gate – Building 2B
124 Akkerboom Road
Centurion
0157

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