# KUMBA IRON ORE LIMITED
## INTEGRATED REPORT 2018

**UNLOCKING OUR FULL POTENTIAL**

DISCIPLINED GROWTH FOR A SUSTAINABLE FUTURE

AngloAmerican

Real Mining. Real People. Real Difference.

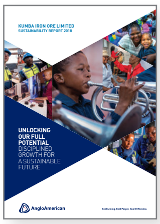
# OUR APPROACH TO REPORTING

## Navigating our 2018 reports

Our integrated reporting suite comprises the following reports:

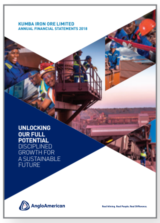
**INTEGRATED REPORT (IR)**

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.



**ANNUAL FINANCIAL STATEMENTS (AFS)**

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

**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 19 February 2019.

More specific information can be found with our page reference throughout this report

**Online**
Each of these reports, with additional updated information, is available on our website:
**www.angloamericankumba.com**

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**OUR BUSINESS**



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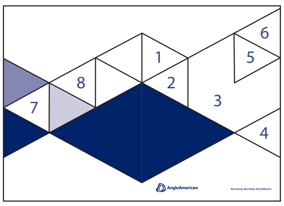
## DISCIPLINED GROWTH FOR A SUSTAINABLE FUTURE




Cover images
1. Iwan Grobbelaar and Kenny Moloyi, drone operators performing mapping and surveying of all the mine pits at Kolomela Mine.
2. Wayne Oerson, a Sishen employee working at the load out station, inspecting the rail.
3. A view of the plant at Kolomela.
4. Kgomoco Macuecwe, Moabi Tau, Boitumelo Bohitle, Bophelo Bantseng, Mapule Melokwe and Gerhard Phutang, receiving carpentry training at the Tsipi skills and civil training centre.
5. A worker at the Saldanha Bay port.
6. Zenovia Bekend and Marian Jobs, plant operators carrying out maintenance on the conveyors at the Kolomela primary crusher.
7. Redwaan Witbooi and Nadine Louw, performing acid and base tests at the Blinkklip High School.
8. Jaco Malgas a boilermaker, performing plant maintenance at Kolomela.

This integrated report, written primarily for current and prospective shareholders, seeks to demonstrate that Kumba has the appropriate strategy to implement the transformation that focuses on delivering value to all stakeholders in a responsible and sustainable manner.

**With our Tswelelopele programme guiding us across the three horizons we can radically transform our business and improve our competitiveness over the short, medium and long term.**

As outlined throughout this report, our strategy and management practices are informed by a sound appreciation of the critical relationships and resources that Kumba depends on to create value.

**TSWELELOPELE PROGRAMME**

# ABOUT THIS REPORT

## REPORTING SCOPE AND BOUNDARY

This report provides information relating to Kumba's strategy and business model, operating context, material risks and opportunities, and governance and operational performance for the period 1 January 2018 to 31 December 2018. The report covers the activities and impacts of the following operations over which we have direct control: our Sishen and Kolomela operations, our corporate office in Centurion, our operation at Saldanha port, and our marketing division. Thabazimbi, our operation in Limpopo was transferred to ArcelorMittal SA on 1 November 2018. We also consider the risks, opportunities and outcomes of our business activities on the various stakeholders who are affected by what we do. These stakeholders and their interests are described on page 32, and an overview of the principal outcomes of our activities is provided on pages 16 to 19. In addition, we have published annual financial statements (AFS), a sustainability report (SR), and an Ore Reserve (and Saleable Product) and Mineral Resource (ORMR) report. The reporting process for all our reports has been guided by the principles and requirements contained in International Financial Reporting Standards (IFRS), the IIRC's International <IR> Framework, the GRI Standards, the King IV™ Report on Corporate Governance for South Africa 2016 (King IV), the JSE Listings Requirements, and the Companies Act No 71 of 2008.

## OUR APPROACH TO MATERIALITY

This report provides information that we believe is of material interest to current and prospective investors, and to any other stakeholder who wishes to make an informed assessment of Kumba's ability to generate value over the short, medium and long term. We have sought to ensure that all the information in this report relates to matters that have a material bearing on value creation at Kumba. Understanding our business (page 6), our business model (page 12) and our activities and impacts across our value chain (page 14) form the basis for appreciating how Kumba creates value, and for identifying those issues impacting value. Our ability to create value is determined by the quality of our response to our operating context (page 25), the priority risks and opportunities facing our business (page 36), and the material interests of our key stakeholders (page 32). Making an informed assessment of the quality of our response requires an appreciation of our strategy (page 3), our performance (page 20), our leadership team (page 78), and our governance practices (page 81).

## ASSURANCE

We use a combined assurance model that includes assurance obtained from management and from our internal and external assurance providers. Deloitte & Touche assured our AFS 2018 (see page 24 of AFS), while PwC assured key sustainability information in our SR 2018 (see page 87 of the SR). Both of those processes inform our IR 2018, which contains both financial and non-financial indicators. Last year, two independent external due diligence audits were conducted on the 2017 Kumba Ore Reserve and Mineral Resource estimates; the next audit will take place in 2019.

Our Audit Committee provides internal assurance to the Board on an annual basis on the execution of the combined assurance plan. The group's financial, operating, compliance and risk management controls are assessed by the group's internal audit function, overseen by the Audit Committee. The Audit Committee report is on pages 19 to 23 of the AFS.

## DIRECTORS' RESPONSIBILITY

As members of the Kumba Board, supported by the Audit Committee, we acknowledge our responsibility for ensuring the integrity of this report. Executive management, assisted by a dedicated reporting team, were responsible for drafting this report. As members of the Board, we have applied our collective mind to the preparation and presentation of the information contained in Kumba's 2018 integrated report. We believe that the report is presented in accordance with the IIRC's International <IR> Framework, and that it provides a balanced and appropriate presentation of those matters that have or could have a material effect on Kumba's ability to create value in the short, medium and long term.

We invite Kumba's stakeholders to review this report and to provide feedback on the Company's performance and its disclosure on delivering stakeholder value.

15 March 2019

**Dr Mandla Gantsho**
Chairperson and Independent Non-Executive Director

**Themba Mkhwanazi**
Chief Executive and Executive Director

**Bothwell Mazarura**
Chief Financial Officer and Executive Director

**Buyelwa Sonjica**
Independent Non-Executive Director
Chairperson of the Social, Ethics and Transformation Committee

**Dolly Mokgatle**
Independent Non-Executive Director
Chairperson of the Risk and Opportunities Committee

**Terence Goodlace**
Lead Independent Non-Executive Director

**Seamus French**
Non-Executive Director

**Nonkululeko Dlamini**
Non-Executive Director

**Stephen Pearce**
Non-Executive Director

**Sango Ntsaluba**
Independent Non-Executive Director
Chairperson of the Audit Committee

**Mary Bomela**
Independent Non-Executive Director

**Ntombi Langa-Royds**
Independent Non-Executive Director
Chairperson of the Human Resources and Remuneration Committee

# GLOSSARY OF ICONS

## ICONS USED THROUGHOUT THIS REPORT

### OUR CAPITALS

**To demonstrate how utilisation and trade-offs in the capitals lead to value creation**

| | |
|---|---|
| People | Everything we do depends on the wellbeing, skills, productivity, motivation and behaviour of our employees, leadership team, contractors and service providers. |
| Manufactured assets | Our substantial financial investment in the purchase, development and maintenance of property, plant and equipment has given us the capacity to generate longer-term returns. |
| Financial capital | Financial capital – such as equity, debt and reinvestment – is the lifeblood of the Company, and an essential basis for sustaining and creating further value across all capital stocks. Encouraging changes in the regulatory environment offer potential to enhance the mining sector's competitiveness and can help restore investor confidence. |
| Natural resources | Our business model involves converting natural resources into social and economic value; doing so has some unavoidable environmental impacts, most of which are borne mainly by communities around our mines. |
| Relationships | Trusted relationships with stakeholders is essential to securing our reputation and licence to operate, and enabling us to deliver on our ambitious Tswelelopele strategy. |
| Intellectual capital | Our business model depends on having effective management systems and a strong performance-based ethical culture, producing the most efficient and effective outcomes. |

For more information on our capitals see page 16

### HOW WE MEASURE THE VALUE WE CREATE

**Our seven pillars of value underpin everything we do. Each pillar has defined key performance indicators (KPIs) and targets that we set for the business and against which we measure our financial and non-financial performance:**

| | |
|---|---|
| Safety and Health | To do no harm to our workforce |
| Environment | To minimise our impact on the environment |
| Socio-political | To partner in the benefits of mining with local communities and government |
| People | To create sustainable competitive advantage through capable people and an effective, performance-driven organisation |
| Production | To sustainably produce valuable product |
| Cost | To be competitive by operating as efficiently as possible |
| Financial | To deliver sustainable returns to our shareholders |

For more information on our KPIs, see page 20

# OUR STRATEGY

Our strategy known as Tswelelopele, is structured around key focus areas and delivered over three horizons to guide our actions to achieve our ambition of US$10/tonne margin enhancement and extend the life of our assets beyond 20 years

## OUR VISION

To be a successful and sustainable African supplier of quality iron ore to global and local markets while delivering superior value to our stakeholders



### STRATEGIC AMBITION

- ELIMINATE FATAL INCIDENTS THROUGH A CULTURE OF ZERO HARM
- IMPROVE MARGINS BY US$10/TONNE TO REMAIN GLOBALLY COMPETITIVE AND SUSTAINABLE
- SUSTAINABLY EXTEND THE LIFE OF OUR ASSETS BEYOND 2035
- BECOME THE EMPLOYER OF CHOICE, THROUGH A HIGH-PERFORMANCE CULTURE DRIVEN BY HEALTHY MOTIVATED EMPLOYEES

### WE DELIVER OUR STRATEGY OVER THREE HORIZONS THROUGH OUR TSWELELOPELE PROGRAMME

#### HORIZON 1: Operating assets at full potential

- Sustainably operate mines at a **lower unit cost** to remain competitive through a reduced cost base and a step-up in productivity
- Compete through **premium products** to maximise price premium realised and to maintain differentiated customer relationships
- **Implement the Operating Model** to ensure the stable and capable processes leading to the delivery of business expectations

#### HORIZON 2: Leveraging endowment

- **Extend life of current mines** through low-grade projects, and business development activities
- **Focus on the Northern Cape,** as the region contains the most **attractive ore bodies**
- **Use technology** to extract maximum value from our ore, focusing on step-change opportunities
- **Unlock full infrastructure potential** to support maximum export volumes over the medium term

#### HORIZON 3: Expanding the business into attractive adjacencies

- **Identifying and realising opportunities** beyond the existing asset base

### KEY ENABLERS

- Align **marketing and operational activities** to ensure product produced efficiently matches customer needs
- Reinforce **product quality and consistency**
- **Proactively engage with key stakeholders** to reinforce our partnership approach
- **Leadership and culture,** embedding a culture that fosters safety, diversity, innovation and organisational effectiveness
- Provide leadership through **responsible citizenship,** displaying care for **safety, health and the environment**

# OUR STRATEGY
## CONTINUED

### Through our Tswelelopele (Ore to Awe) programme – aimed at unlocking our full potential and deliver value for all our stakeholders – we are focusing our actions on making Kumba more competitive within the context of continuing volatility in global markets.

We recognised the need to enhance our competitive position and agreed to embark on a journey to drive the business to its full potential. Our strategic response has four main ambitions:

- achieve our goal of zero fatalities, through a culture of zero harm
- sustainably extend the life of our assets beyond 2035
- significantly improve margins by US$10/tonne to remain globally competitive and sustainable
- become the employer of choice, through a high-performance culture driven by healthy motivated employees

To achieve these ambitions, we have structured our strategy around three time-based transformation horizons, with key strategic focus areas and key enablers to realise our ambition:

- **Three transformation horizons:**
  - Horizon 1 (short term / 1 to 3 years): Operating assets at their full potential
  - Horizon 2 (medium-term / 3 to 5 years): Leveraging endowment
  - Horizon 3 (long-term): Expanding the business into attractive adjacencies

- **Our strategic focus areas:**
  - Focus on the Northern Cape
  - Extend life of current assets
  - Unlock full infrastructure potential
  - Sustainably operate mines at lower unit costs
  - Compete through premium products
  - Use technology to extract maximum value
  - Implement the Operating Model
  - Identifying and realising opportunities beyond the existing asset base

- **Our key enablers:**
  - Align marketing and operational activities
  - Reinforce product quality and consistency
  - Proactively engage with key stakeholders
  - Leadership and culture
  - Provide leadership through responsible citizenship

While we are confident that we can deliver on the strategy and achieve our ambitious goals, we recognise that achieving the required transformation will require a paradigm shift in how we operate. To meet our strategic objectives and ensure long-term value for the Company and our stakeholders: we will need to drive change at pace and in a coordinated manner, ensuring that we are able to address any delivery risks as they arise; we will need faster decision-making and simplified governance and approval processes, underpinned by a high performance culture across the whole workforce; and we will need to inspire the organisation to deliver on the required changes by ensuring their active engagement in shaping the vision and response actions.

Our positive progress in the last year shows that we are up to this challenge.

## THREE TRANSFORMATION HORIZONS

### HORIZON 1 (short-term): Operating assets at full potential

We have identified various short-term initiatives aimed at ensuring that our assets operate at their full potential, delivering improved productivity and enhanced product quality, more efficiently. These strategic initiatives, which require limited capex investments and use current available technologies, include:

- operating our assets at their full potential – by improving overall equipment efficiency and further enhancing labour productivity on the mines
- reducing our external spend – through a mix of commercial levers (driving price and supplier consolidation improvements) and technical levers (by optimising specifications, demand management and total cost of ownership)
- improving organisational effectiveness – optimising the Operating Model and driving efficiencies though a leaner and more effective head office and shared services function
- optimising our product portfolio – thereby maximising price premia

We believe that these initiatives could deliver a US$7per tonne margin improvement over a one to three-year time frame, and extend the life-of-mines by up to two years.

**Key outcomes for 2018:**

- Enhanced product portfolio – 64.5% Fe (2017: 64.1% Fe)
- Improved productivity at 65% of benchmark compared to 58% of benchmark for 2017
- Cost savings achieved during 2018 amounting to R976 million against a target of R800 million
- Improved earnings before interest, tax and depreciation (EBITDA) margin of 45%, compared to 42% achieved in 2017

### HORIZON 2 (medium-term): Leveraging endowment

In addition to improving the performance of our current assets, we have identified selected opportunities to leverage our endowment, grow our core business and further extend life-of-mine by:

- increasing our logistics capacity to cater for medium-term growth
- beneficiating in situ and stockpiled/ discard materials through ultra-high dense media separation (UHDMS) technologies
- realising various life-extension projects around both Kolomela and Sishen
- identifying specific business development initiatives to consolidate the Northern Cape region

These potential opportunities are more complex to deliver than Horizon 1, require significant capital investment and time, and are largely dependent on successful negotiations with external stakeholders or on external factors such as technology development. We are confident, however, that they could deliver a further US$3 per tonne in margin improvements and extend the life of our assets beyond 2035.

**Key outcomes for 2018:**

- Total ore reserves of 732.9 Mt (at 59.1% Fe), a net increase of 8% compared to 2017
- Saleable product of 594.8 Mt (at 64.5% Fe), a net increase of 10% compared to 2017
- Reserve life at Sishen increased from 13 years to 14 years and Kolomela remained stable at 14 years
- Sishen life-of-mine (LoM) strip ratio reduced from 4 to 3.4
- Heuningkranz prospecting right included in Kolomela mining right
- UHDMS feasibility study 68% completed

### HORIZON 3 (long-term): Expanding the business into attractive adjacencies

While Horizons 1 and 2 focus on our core business activity, Horizon 3 involves identifying and realising 'close-to-core' opportunities that may arise in future. Any opportunities beyond the existing asset base will only be pursued if they fit well with Kumba's strategic direction. As part of our longer-term time horizon, these opportunities are anticipated to only deliver value after the next five years.

TSWELELOPELE
ORE TO AWE

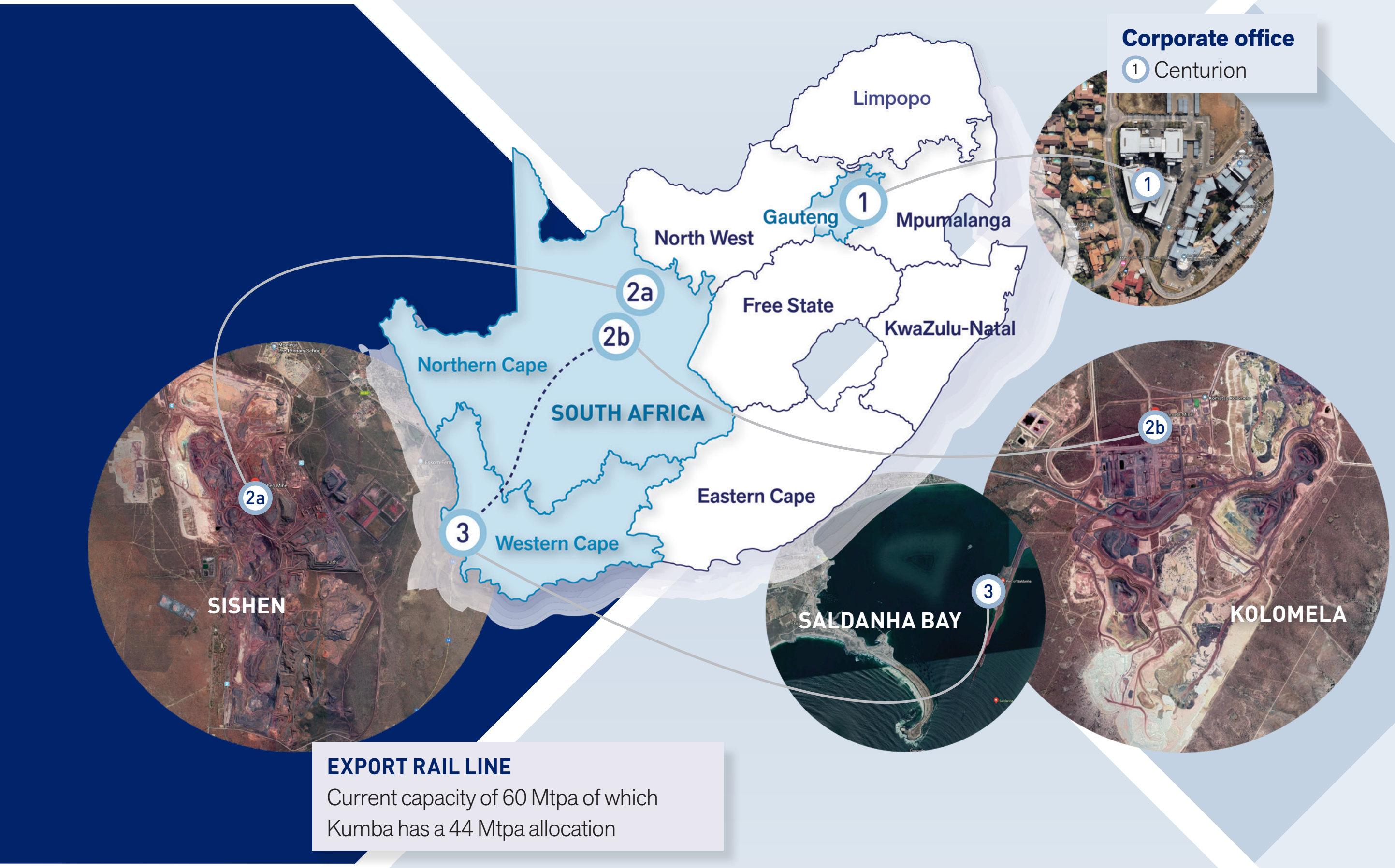
# WHERE WE OPERATE

**Corporate office**
We mine the materials that make modern life possible, operating in South Africa with our corporate office located in Centurion, Gauteng

**Sishen**
Our flagship operation in the Northern Cape province

**Kolomela**
Our newest operation, currently producing well above original name-plate capacity of 9 Mtpa

**Saldanha Bay port**
Iron ore export facility, our high quality iron ore is exported to markets in Asia-Pacific, Europe and the Middle East




**EXPORT RAIL LINE**
Current capacity of 60 Mtpa of which Kumba has a 44 Mtpa allocation

For more information see www.angloamericankumba.com

Mining operation

## 2a SISHEN

- Commissioned in 1953
- Located in Kathu
- Reserve life: 14 years
- Bulk of Kumba's production
- One of the largest open-pit mines in the world
- All mining is done by opencast methods
- Sishen is the only haematite ore producer in the world to beneficiate all its product

### 2018 PERFORMANCE

- Zero fatalities; LTIFR of 1.04
- Production of 29.2 Mt
- Lump:Fine ratio of 72:28
- 220.5 Mt total tonnes mined, including ex-pit ore of 38.4 Mt and waste of 182.1 Mt
- 27.1 Mt railed on the Sishen/Kolomela-Saldanha iron ore export channel (IOEC)
- Unit cash cost: R290/tonne
- Stripping ratio: 4.7
- 4,312 permanent full-time employees and 4,440 full-time contractors
- R48.7 million invested in social and community projects
- ISO 14001, ISO 9001, and OHSAS 18001 certified

For more information on this operation see page 66 of this report.

Mining operation

## 2b KOLOMELA

- Commissioned in 2011
- Mine situated near the town of Postmasburg
- Produces primarily high-grade direct shipping ore (DSO)
- Dense media separation (DMS) modular plant commissioned in 2017
- Reserve life: 14 years

### 2018 PERFORMANCE

- Zero fatalities; LTIFR of 0.80
- Production of 13.9 Mt
- Lump:Fine ratio of 59:41
- 72.0 Mt total tonnes mined including ex-pit ore of 16.1 Mt and waste of 56.0 Mt
- 13.5 Mt railed on the IOEC
- Unit cash cost: R249/tonne
- Stripping ratio: 3.5
- 1,382 permanent full-time employees and 1,070 full-time contractors
- R47.1 million invested in social and community projects
- ISO 14001, ISO 9001 certified, and OHSAS 18001 certified

For more information on this operation see page 67 of this report.

Port operation

## 3 SALDANHA BAY PORT

- All Kumba export volumes exported through Saldanha Bay port operations, the only dedicated iron ore export facility in South Africa
- Operated by Transnet, a South African state-owned enterprise

### 2018 PERFORMANCE

- Zero fatalities; LTIFR of zero
- Total volumes railed to Saldanha Bay: 40.6 Mt
- Total shipped volumes: 40.0 Mt
- Export sales: 40.0 Mt
- Total cost and freight (CFR) volumes: 26.5 Mt
- 24 permanent full-time employees
- ISO/IEC 17025 accredited QC laboratory

For more information on this operation see page 68 of this report.

# CHAIRPERSON'S REVIEW

**Dr Mandla Gantsho**
Chairperson

During the year Kumba demonstrated its ability to deliver on its strategic growth objectives, with outstanding safety performance and solid operational and financial results. The Company's performance is encouraging against the backdrop of a challenging operating environment, including ongoing global market volatility, and logistical disruptions experienced on the IOEC rail-line.

**It gives me pleasure to introduce Kumba's 2018 integrated report. The report presents Kumba's strategic framework for long-term value creation and provides a concise review of how the Company's performance and governance over the past year is delivering on this strategy.**

## ENCOURAGING SAFETY PERFORMANCE

Recent tragic and fatal events in the mining industry around the world, such as the Brumadinho tailings dam wall collapse in Brazil, the flooded gold mines in Zimbabwe, methane gas explosion in a coal mine in South Africa, serve as a sobering reminder of the risks associated with mining activities, and highlight the critical importance of maintaining an unwavering focus on safety and sustainability. Kumba's top strategic priorities include embedding a culture of zero harm and to promote sustainable practices across its operations and activities.

It is pleasing to report that during the year under review, Kumba continued with its impressive safety performance record. The Company has been without a fatal incident since May 2016, and has seen consistent improvement, year on year, in its performance in respect of key safety indicators. The Company achieved a 67% reduction in the number of high-potential incidents (HPIs), while its total recordable case frequency rate of 1.80 was substantially below its target of 2.75. While Kumba's recent safety performance is commendable, this is not a reason for the Company to reduce its efforts in driving a culture of zero harm. The Board expects to see further improvements in its safety and health performance in coming years.

## CONTINUING VOLATILITY IN THE OPERATING ENVIRONMENT

We have experienced ongoing volatility in global iron ore prices, reflecting changing supply and demand dynamics as well as continuing uncertainty at a geopolitical level. Globally, investor sentiment has been unsettled by US/China trade tensions, a lack of clarity on the Brexit process, and indications of an economic slowdown in key markets. While Chinese steel production rose for a second consecutive year, buoyed by strong investment particularly in the property market, infrastructure-led demand was impacted by record low investment growth and iron ore prices have remained well below the highs experienced in 2013. This highlights the continued relevance of our Tswelelopele strategy of unlocking full potential through a strong focus on improving margins by reducing costs, increasing productivity and securing a price premium from enhanced product quality.

In South Africa, there have been positive developments in the political and regulatory environment following the change of political leadership. The recently gazetted draft of the Mining Charter offers a more constructive approach to many of the transformational issues that proved challenging under the 2010 Charter. We are of the view that the enhancements within the draft Charter offer the potential to improve the mining sector's competitiveness and address some of the concerns of investors.

Kumba has consistently affirmed its support for the national transformation objectives and has recognised the key role of the mining sector in promoting socio-economic transformation. Along with our parent company, Anglo American plc, we remain committed to continuing that journey, and will strive to work collaboratively with government in identifying and implementing the most effective means of achieving the shared transformational goals.

## LOGISTICAL CHALLENGES ON THE IOEC RAIL-LINE

During the year, Kumba experienced significant disruptions on the IOEC rail-line. In addition to seven train derailments over the year, Transnet declared force majeure following an incident in November 2018, which resulted in the temporary closure of the IOEC line. These logistical challenges contributed to a year on year reduction of 4% in total production and export sales volumes.

The Company has worked closely with Transnet throughout the year to address these challenges and it is pleasing to note the recent progress in this regard, including the quick recovery time that was achieved in reopening the damaged railway bridge following the November 2018 incident. We appreciate the strengthening of this relationship and look forward to further close collaboration in the year ahead in finding mutually beneficial solutions.

## SOLID PERFORMANCE DESPITE EXTERNAL CHALLENGES

Given the logistical challenges, rising extraneous costs and continuing uncertainty in the external operating context, it has been gratifying to note the stellar operational and financial performance during the year, and the progress made in delivering on the 'Tswelelopele' strategy.

The Company's strong drive to enhance margins – by driving cost efficiencies and enhancing product quality – resulted in higher realised prices and contributed to the EBITDA margin of 45%. Cost efficiency initiatives delivered some R1 billion in savings, substantially ahead of the targeted R800 million. The Company also made solid progress in its initiatives to extend the life of its assets, and enhance operational and technical efficiency.

# CHAIRPERSON'S REVIEW CONTINUED

Over the year, Kumba generated R18.9 billion in cash from operations, resulting in a net cash balance of R11.7 billion. This enabled the Board to declare a final dividend of R15.73 per share, resulting in a total dividend of R30.24 per share for 2018. In July 2018 the Board approved a new dividend policy that targets a base dividend range of between 50% and 75% of headline earnings. In addition to prioritising shareholder returns when allocating capital, the aim is to maintain a flexible capital structure to protect the balance sheet from market volatility and to allocate an appropriate level of capital towards life extension projects.

## MAINTAINING GOOD GOVERNANCE

The Board has maintained its focus on fostering sound corporate governance, providing strategic direction and rendering robust oversight on the implementation of the strategy. Our ability to do so is significantly enhanced by having a skilled and diverse Board with an appropriate mix of gender, race, experience and perspective.

During the reporting period there have been various changes to the Board membership. Allen Morgan stepped down as an independent non-executive director and as chairperson of the Remuneration Committee, retiring from the Board with effect from 11 May 2018. On behalf of the Board I extend our sincere thanks to Allen, who has served with dedication on the Board for 12 years. Ntombi Langa-Royds was appointed as chairperson of the Human Resources and Remuneration Committee, following Allen's retirement. Terence Goodlace stepped down as chairperson of the Risk and Opportunities Committee but remains a member of the Committee. Terence was appointed Lead Independent Director during the year under review. Dolly Mokgatle was appointed as the chairperson of the Risk and Opportunities Committee; she stepped down as the chairperson of the Social, Ethics and Transformation Committee, but remains a member of that committee. Buyelwa Sonjica was appointed as chairperson of the Social, Ethics and Transformation Committee. I believe that the current Kumba Board brings the diversity of expertise and perspective that is needed to deliver effectively on its governance and oversight functions.

## APPRECIATION

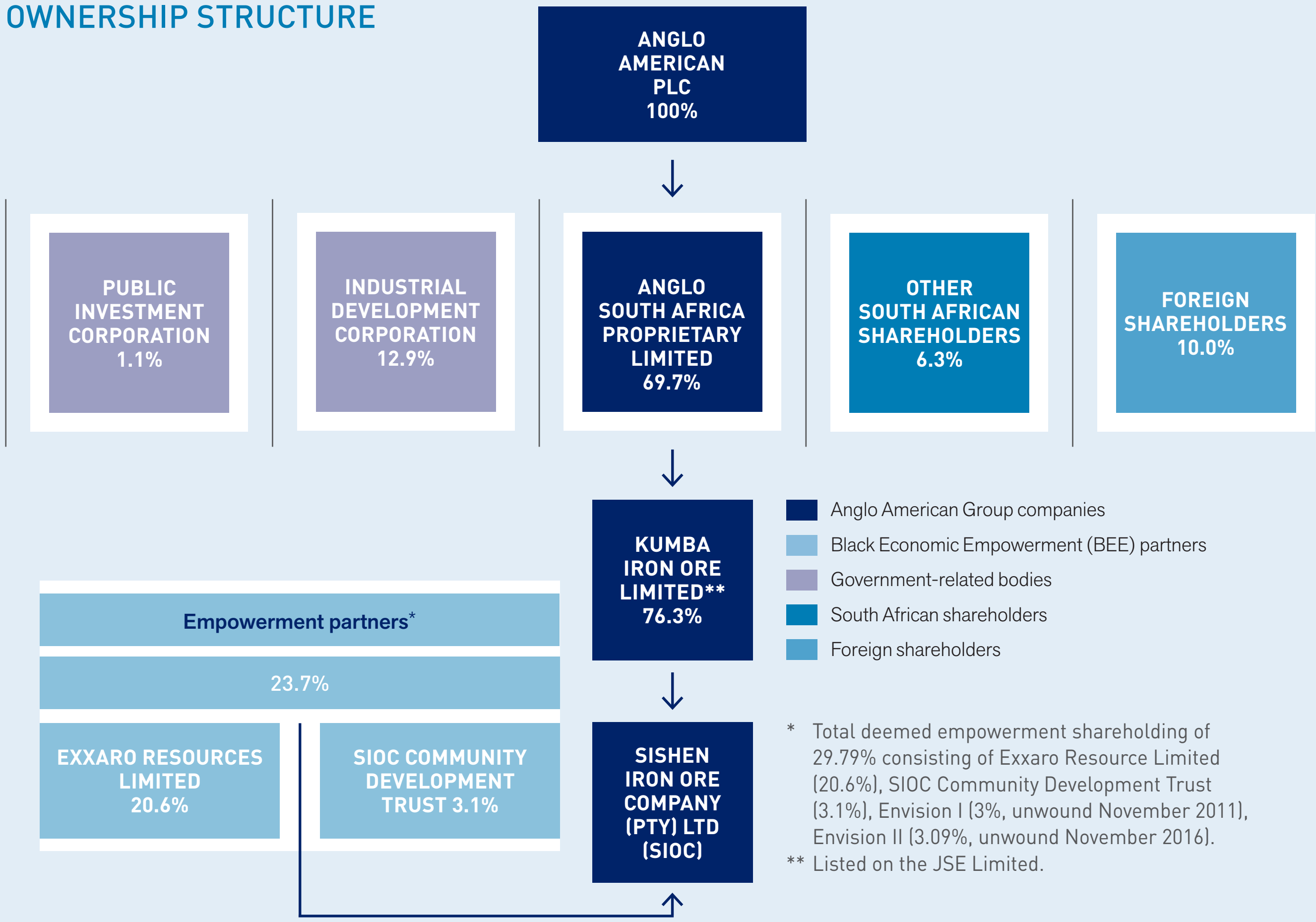
In my own name and on behalf of the Board, I extend appreciation to Themba Mkhwanazi and the executive team for their role in driving the Company's strong performance this year. I also wish to acknowledge and thank my colleagues on the Kumba Board for their valuable contribution in ensuring the effective stewardship of Kumba's ambitious strategic agenda. Finally, I express my deep appreciation to Kumba's employees, who have been instrumental in securing the Company's ability to deliver on its core purpose of generating superior value for its stakeholders. Driving the ambitious company-wide change agenda, Kumba's Tswelelopele strategy, is never easy. However, the impressive safety, operational and financial performance for the year under review indicates that the Company has the right people, skills and mindset to successfully deliver on strategic objectives.

**Dr Mandla Gantsho**
Chairperson

15 March 2019

# WHO WE ARE

## KUMBA IRON ORE LIMITED OWNERSHIP STRUCTURE




* Total deemed empowerment shareholding of 29.79% consisting of Exxaro Resource Limited (20.6%), SIOC Community Development Trust (3.1%), Envision I (3%, unwound November 2011), Envision II (3.09%, unwound November 2016).

** Listed on the JSE Limited.

## AT A GLANCE

**43.1 Mt**
production (2017: 45.0 Mt)

**40.0 Mt**
export sales (2017: 41.6 Mt)

**12,050**
employees (2017: 10,727)

**292.5 Mt**
total tonnes mined (2017: 271.3 Mt)

**3.3 Mt**
domestic sales (2017: 3.3 Mt)

Customers in South Africa, China, India, Japan, South Korea, Europe and the Middle East

# OUR BUSINESS MODEL

## OUR OUTPUT

**43.1 Mt high-quality haematite iron ore, with a lump-to-fine ratio of 68:32 (2017: 66:34). Sishen produced products with an average Fe content of 64.6% and Kolomela averaged 64.3% for 2018. Our product portfolio includes niche lump products, as well as standard fines and standard lump**

HOW WE CREATE VALUE

## COMPETING ON **REVENUE**

### OUR REVENUE

**Iron ore prices**
securing a premium for our higher quality ore

**Iron ore sales volumes**
hampered by logistical challenges

**Rand/US$ exchange rate**
higher US$ iron ore prices partially offset by a marginally stronger Rand

## Our value proposition

### CUSTOMER VALUE PROPOSITION

The reliable supply of high-quality iron ore

### EMPLOYEE VALUE PROPOSITION

The opportunity to earn, learn and grow in a zero-harm environment, supported by a high-performance culture

### SOCIETAL VALUE PROPOSITION

Improving people's lives through our innovation-led approach to sustainable mining that converts mineral resources into long-term value, contributes to socio-economic transformation, and fosters inclusive and environmentally responsible economic growth

### SHAREHOLDER VALUE PROPOSITION

Provide sustained and growing financial returns and dividends throughout the commodity cycle, through responsible management and good governance

### OUR ACTIVITIES (See page 14)

- **Exploration:** Identifying potential new resources, primarily in the Northern Cape
- **Mining:** Extracting iron ore in the Northern Cape
- **Beneficiation:** Improving the final product quality, using dense media separation (DMS), jig technology and ultra-high density media separation (UHDMS)
- **Blending and outbound logistics:** Providing and transporting niche products
- **Shipping, marketing and selling:** Servicing markets in South Africa and globally
- **Rehabilitation and environmental stewardship:** Across all relevant stages of the production process

### KEY RESOURCES AND RELATIONSHIPS

- The quality and availability of certain natural resources, such as iron ore, land, water and energy
- Concluded prospecting and mining rights – awarded by **national government**
- Regulatory permits and licences – from **national, provincial and local government**
- Social licence to operate – provided by **communities, their representatives and NGOs**
- Financial capital – from **shareholders** and **lenders**
- Infrastructure and support services – including especially the rail and port services provided by **Transnet**
- Positive relationships with **employees and trade unions**
- Technical, commercial and managerial skills and experience – amongst **employees, management and leadership teams**
- Exploration, mining and processing technology and techniques – in **technical teams and contractors**
- Key **service providers and suppliers** – with a strong focus on building BEE and a strong local supplier base
- High levels of customer satisfaction within a loyal **customer base**
- Strong reputation – including particularly with the **media and financial analysts**

### OUR OPERATING CONTEXT:
Issues impacting value

- Iron ore price volatility
- Flattening of the producer cost curve globally
- Impact of external variables
- Rising expectations across stakeholder groups
- A strong sector-based commitment to eliminate fatalities
- Group-wide drive for operational excellence and sustainable development
- Maintaining the quality of iron ore reserves and life of asset
- Challenges in the regulatory and policy environment

### OUR COSTS

**TO MAINTAIN THE CURRENT VALUE PROPOSITION**

DISTRIBUTION (rail, port and freight) | LABOUR
ENERGY (liquid fuel and electricity) | CONSUMABLES
CAPITAL EXPENDITURE | MAINTENANCE
MINING AND NON-MINING CONTRACTORS
SOCIAL INVESTMENTS | REHABILITATION
BENEFICIATION | DRILLING AND BLASTING

**TO EXPAND THE VALUE PROPOSITION**

CAPITAL EXPENDITURE | EXPLORATION | MARKETING

## POTENTIAL FOR **REVENUE** DIFFERENTIATION

- ✓ Ability to achieve quality and lump premia for superior ore quality (64.5% Fe vs 62% Fe benchmark)
- ✓ Price differential potential due to higher lump:fine ratio (68:32 vs global average of 20:80)
- ✓ Ability to respond quicker to market volatility than competitors due to greater operational flexibility as a result of our size and superior ore quality
- ✓ Stronger price realisation, driven by effective marketing activities

## OUR TOP 10 RISKS

1. Third-party infrastructure
2. Commodity markets and exchange rate fluctuations
3. Safety and Health
4. Stakeholder relations and social licence to operate
5. Socio-economic and governance current challenges
6. Cyber risk
7. Legislation and regulatory compliance
8. Managing change (transformation of the business)
9. SIOC empowerment status
10. Resource depletion and securing our growth

For more information see page 36

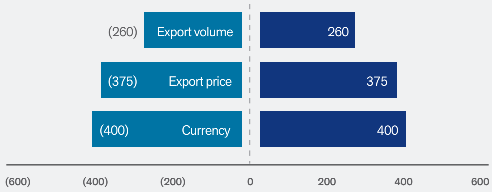
## POTENTIAL FOR **COST** DIFFERENTIATION

- ✓ Scope for differentiation through UHDMS technology
- ✓ Further leverage in operating costs through enhanced operating efficiencies
- ✓ Ability to deliver costs reductions in the supply chain
- ✓ Further diversify customer portfolio with sales in regions utilising direct-charge materials
- ✗ Higher stripping ratio due to inherent characteristics of the ore body resulting in higher mining costs
- ✗ Higher costs associated with distance from ports, and Australian competitors closer to key market in China

## SENSITIVITY ANALYSIS

**1% change to key operational drivers, each tested independently**

Sensitivity analysis (1% change) – EBITDA impact (Rm)

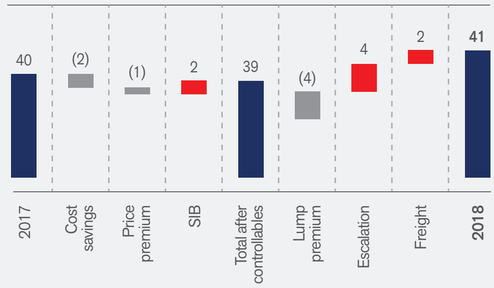



## CHANGE PER UNIT OF KEY OPERATIONAL DRIVERS, EACH TESTED INDEPENDENTLY

| Sensitivity analysis | Unit change | 2018 EBITDA impact |
|---|---|---|
| Currency (R/US$) | R0.10/US$ | **R300m** |
| Export price (US$/t) | US$1.00/t | **R520m** |
| Volume (kt) | 100 kt | **R65m** |
| | **Unit change** | **Breakeven price impact** |
| Currency (R/US$) | R1.00/US$ | US$3.00/t |

## BREAKEVEN PRICE

**Breakeven price**



# OUR VALUE CHAIN

## ACTIVITIES AND IMPACTS

| | EXPLORATION | MINING | BENEFICIATION | |
|---|---|---|---|---|
| **PRIMARY INPUTS** | **Our ability to generate value is dependent on access to financial capital, skilled people, quality relationships and key natural resources, supported by the right Company culture and by access to necessary infrastructure, plant and equipment. An overview of key inputs across our value chain is provided on pages 16 to 19.** | | | |
| **OUR ACTIVITIES ACROSS THE FULL VALUE CHAIN** | Our exploration in South Africa is focused on the Northern Cape, close to our existing operations. We are conducting on and near-mine exploration and resource-definition drilling to increase confidence in the geological models; these are updated annually in support of life-of-mine and long-term planning. | We extract iron ore by mining the iron ore bodies within our mining leases using open pit methods. We are implementing a technology roadmap that aims to accelerate the adoption of technology to improve safety, quality, efficiency and resource utilisation. | We use DMS and UHDMS processing and jigging technologies to regulate the physical properties of the finished product, removing impurities and improving product quality. We also support the South African government's objectives to maximise the developmental impact of the minerals sector. | |
| **KEY OUTCOMES**<br>Implications of our activities on value in each stage of the value chain<br>✓ Positive outcome<br>= Neutral outcome<br>✖ Negative outcome | ✓ Contributing to long-term financial viability<br>✓ Developing relationships in Northern Cape<br>✓ Developing intellectual capital through enhanced technologies and techniques<br>✓ Contributing to tax base throughout the value chain<br>✓ Positive contribution to junior miners and government stakeholders<br>✓ Kolomela mining right amended to include Heuningkranz prospecting right<br>✖ Increasing, and often unfulfilled, community expectations for economic opportunities | ✓ Zero fatalities and a 67% reduction in HPIs<br>✓ Skills development and assistance to emerging miners<br>✓ Community upliftment, enhanced service provision and infrastructure investment<br>✓ Investment in innovation<br>✓ Improved water supply through dewatering and water provision activities in a water-stressed environment<br>✓ Advanced process control and automated drilling<br>✓ Impact of change in shift patterns on labour productivity and efficiency<br>✖ Influx of informal settlements around our operations<br>✖ Competition over land use with communities<br>✖ Dust emission challenges | ✓ Securing market premium through enhanced quality product<br>✓ Enhanced intellectual capital and technology development<br>✓ Contribution to government beneficiation objectives<br>✓ Unlocking low-grade potential with UHDMS technology<br>✖ Dust emission challenges<br><br>**OUR OUTPUT** | |
| **STRATEGIC FOCUS AREA** | Focus on the Northern Cape<br>Extend life of current mines<br>Use technology to extract maximum value | Extend life of current mines<br>Sustainably operate mines at lower unit costs<br>Use technology to extract maximum value | Compete through premium products<br>Extend life of current mines<br>Use technology to extract maximum value | |
| **KEY ENABLER** | Proactively engage with key stakeholders | Provide leadership through responsible citizenship | Provide leadership through responsible citizenship | |

| BLENDING AND OUTBOUND LOGISTICS | SHIPPING, MARKETING AND SELLING | REHABILITATION AND ENVIRONMENTAL STEWARDSHIP |
|---|---|---|
| Blending allows us to utilise products from our operations to provide niche specification products to our markets. Products are screened and sized to match customer requirements, and then transported through the outbound logistics chain. | We sell iron ore domestically and internationally. Export customers are in a range of geographical locations, including China, Japan, India, South Korea and countries in Europe and the MENA region. Domestically, we sell to ArcelorMittal SA. | The life-cycle of the mine needs responsible environmental management practices to ensure minimal disruption to natural resources during and after our operations, through application of our mine closure toolbox. |
| ✓ Maximise value from the resource investment in technologies and techniques<br>✓ Contribution to tax base<br>✖ Logistical challenges, including seven derailments during 2018 | ✓ Enhanced financial returns through product differentiation in sales<br>✓ Price risk management used to mitigate price volatility<br>✓ Quality of products and flexibility to respond to market demand<br>✖ Lost sales opportunities due to rail challenges | ✓ Minimising longer-term environmental impacts and decreased longer-term liabilities<br>✓ Securing authorisations and licences<br>✓ Enhanced reputation<br>✓ Positive biodiversity impacts in set-aside and off-set areas<br>✓ Continuous mine rehabilitation<br>✓ Responsible mine closure<br>✓ Progress with zero waste to landfill at Kolomela<br>✖ Increased financial costs<br>✖ Potential challenges around longer-term land rights |

**43.1 Mt high-quality haematite iron ore with a lump-to-fine ratio of 68:32 in 2018. Sishen produced products with an average Fe content of 64.6% and Kolomela averaged 64.3% for 2018. Our product portfolio includes niche lump products, as well as standard fines and standard lump.**

| | | |
|---|---|---|
| Compete through premium products<br>Unlock full infrastructure potential to support maximum export volumes | Compete through premium products | Provide leadership through responsible citizenship |
| Align marketing and operational activities | Align marketing and operational activities<br>Reinforce product quality and consistency | |

# CREATING VALUE

## OUR INTERDEPENDENCIES WITH THE CAPITALS

| CAPITALS AND TRADE-OFFS | NECESSARY INPUTS | ACTIONS |
|---|---|---|
| **PEOPLE**<br>**Everything we do depends on the wellbeing, skills, productivity, motivation and behaviour of our employees, leadership team, contractors and service providers.** | • Employees and contractors operating within an environment fostering a zero-harm, performance-based culture (2018: **6,005** permanent employees, **5,557** contractors and **488** learnerships)<br>• An **experienced and sufficiently diverse leadership team**, demonstrating values-driven behaviour<br>• Service providers, delivering on **agreed terms and conditions**, and facilitating our drive for transformation and local development | **To enhance EMPLOYEE contribution**<br>Our activities and investments in providing a safe, healthy and engaged working environment, promoting employee training and development, ensuring fair labour and contracting practices, and encouraging local employment opportunities, provide the foundation for optimising value creation. A review of our activities is provided in the following sections of our 2018 reports:<br>• **Leadership and culture** (IR – p 51)<br>• **Provide leadership through responsible citizenship** (IR – p 50)<br>• **Our People:** (SR – p 24)<br>• **Building social capital** (SR – p 42) |
| **OUR RELATIONSHIPS**<br>**Trusted relationships with stakeholders is essential to securing our reputation and licence to operate, and enabling us to deliver on our ambitious Tswelelopele strategy.** | • **Positive** engagement with unionised and non-unionised workforce<br>• Constructive **relationship** with representatives from government and regulators<br>• Continued **confidence** from our shareholders, investors and customer base<br>• **Trusted reputation** with host communities, civil society bodies, NGOs and media<br>• **Effective** service delivery and engagement from suppliers and contractors<br>• **Conducive** local, national and global operating environment, founded on mutual trust | **To enhance our RELATIONSHIPS**<br>The importance of ensuring proactive stakeholder engagement and developing trust has taken on particular relevance in recent years, given generally declining levels of trust globally, and with the challenging price environment requiring us to take some difficult actions that have tested some of our relationships. A review of our activities is provided in the following sections of our 2018 reports:<br>• **Addressing stakeholder interests** (IR – p 32)<br>• **Chief Executive Officer review** (IR – p 22)<br>• **Chief Financial Officer review** (IR – p 52)<br>• **Provide leadership through responsible citizenship** (IR – p 50)<br>• **Building social capital: Making a positive social contribution** (SR – p 42)<br>• **Our People: Workforce culture and capability** (SR – p 37) |
| **NATURAL RESOURCES**<br>**Our business model involves converting natural resources into social and economic value; doing so has some unavoidable environmental impacts, most of which are borne mainly by communities around our mines.** | • Inclusive mineral resources: **1,793.9 Mt**<br>• Water: Total withdrawal of **30.8 million m³** (7% decrease year on year)<br>• Energy: Total consumption of **8.85 million GJ** (1% reduction year on year)<br>• Diesel: **200.9 Ml** purchased (marginal reduction year on year)<br>• Land: **87,876 hectares** land under management**; 2,500 hectares** set aside for biodiversity offsets | **To minimise ENVIRONMENTAL impacts**<br>In addition to directly mitigating the environmental impacts of our activities, we seek to offset remaining impacts through rehabilitation, the provision of energy and water services to the local community, and the responsible sharing of the socio-economic benefits deriving from our mining activities. A review of our activities is provided in the following sections of our 2018 reports:<br>• **Provide leadership through responsible citizenship** (IR – p 50)<br>• **Managing environmental impacts** (SR – p 54) |

Our ability to create value over time – and any assessment of the 'value' we have created or undermined – is determined by how we interact with the resources and relationships that our business model depends on.

## OUTCOMES

### The effect of our activities on EMPLOYEES

✓ Sustained strong safety and occupational health performance
- **Zero** employee and contractor fatalities (2017: zero)
- Total recordable case frequency rate of **1.80**, against a target of **2.75** (2017: 3.23)
- **No** new cases of noise-induced hearing loss or occupational respiratory disease

✓ Enhanced employee skill-set, wellbeing, diversity and commitment, through key initiatives:
- **R4.6 billion** spent on employee salaries and benefits (2017: R4.2 billion)
- **R232.0 million** invested on training and development (2017: R161.9 million)
- **Leadership** and **culture initiatives** support employees through the Tswelelopele journey
- Diversity: **68%** HDSA in management (2017: 66%); **23%** women in total workforce (2017: 21%)
- New broad-based employee share ownership scheme – Karolo – launched: **95%** acceptance rate

= **Job satisfaction** and personal development, partially offset by workplace pressures

✖ **53** employee grievances referred to Commission for Conciliation, Mediation and Arbitration (2017: 54)

### The effect of our activities on our RELATIONSHIPS

✓ Maintained strong employee relations:
- **4.1%** employee turnover rate, well below 7.6% industry benchmark
- **No** industrial action since 2012
- **Implementation** of new employee share ownership scheme, Karolo

✓ Constructive relationship with national, provincial and local government through regular engagement, strong regulatory compliance, and encouraging performance on transformation and developmental objectives
- **Positive** delivery in terms of Mining Charter and National Development Plan (NDP) expectations
- **No** material fines for non-compliance during the year
- **R6.2 billion** total tax contribution (2017: R8.1 billion)

✓ Sustained confidence from shareholders and investors through strong financial performance

✓ Long-term, stable customer base

= Generally encouraging relationship with communities, enhanced by active engagement and provision of economic opportunities, infrastructure and services; some important frustrations and challenges remain
- **91%** of Kumba employees recruited from local areas
- **R1.4 million** spent on more than 260 suppliers from our host communities (2017: R520 million)
- **R11.8 billion** B-BBEE procurement spend (2017: R9.3 billion)
- **R123.5 million** social investment, including in health, education and infrastructure (2017: R106.7 million)
- **67** community complaints, relating mainly to environmental impacts
- **Three** politically-led community protest marches in Sishen host communities
- **Carefully managed** relocation of Dingleton community to a new purpose-built suburb, in accordance with IFC standards

= Some challenges with service providers, including Transnet throughout the year

### The effect of our activities on NATURAL resources

✓ **Increase** in overall Ore Reserves of 8% (56.5 Mt) and increase of 10% (56.2 Mt) in Saleable Product declared in 2018

✓ **No** serious (level 3 to 5) environmental incidents for third consecutive year

✓ **Reduction** in number of environmentally-related community complaints

✓ **No** water source or habitat materially negatively affected by our extraction and use of water

✓ **Clean** mine water recharged into underground aquifers neighbouring Kolomela (roughly 36,000 $m^3$ / month)

✓ **6.7%** energy saving achieved, against business as usual (targeted 10.6%)

✓ **4%** year-on-year decrease in total greenhouse gas emissions (to 0.96 million tonnes $CO_2e$)

✓ **130 hectares** rehabilitated during the year

= **Good progress** in mitigating dust emissions at our mining operations

✖ **14,963 hectares** disturbed by mining, processing and mineral waste disposal

✓ Positive outcome  = Neutral outcome  ✖ Negative outcome

Our business

# CREATING VALUE CONTINUED

## OUR INTERDEPENDENCIES WITH THE CAPITALS CONTINUED

| CAPITALS AND TRADE-OFFS | NECESSARY INPUTS | ACTIONS |
|---|---|---|
| **FINANCIAL CAPITAL**<br>**Financial capital – such as equity, debt and reinvestment – is the lifeblood of the Company, and an essential basis for sustaining and creating further value across all capital stocks. Encouraging changes in the regulatory environment offer potential to enhance the mining sector's competitiveness and can help restore investor confidence.** | • Market capitalisation: **R122 billion** at end of 2017<br>• Capital expenditure to execute growth projects: **R506 million**<br>• Cash generated from operations: **R18.9 billion**<br>• **Debt free** since March 2017 | **To optimise FINANCIAL capital**<br>Through our Tswelelopele strategy we are focusing on making Kumba more competitive by enhancing the performance and efficiency of our current assets to deliver a substantial improvement in margins. A review of our activities is provided in the following sections of our 2018 reports:<br>• **Chief Executive review** (IR – p 22)<br>• **Chief Financial Officer review** (IR – p 52)<br>• **Review of our strategic focus areas** (IR – p 46) |
| **MANUFACTURED ASSETS**<br>**Our substantial financial investment in the purchase, development and maintenance of property, plant and equipment has given us the capacity to generate longer-term returns.** | • Well maintained and functional property, plant and equipment: 2018 book value of **R37.7 billion**<br>• Opportunities for growth: **Exploration, development and production** operations in the Northern Cape province | **To enhance MANUFACTURED assets**<br>A review of our activities is provided in the following sections of our 2018 reports:<br>• **Chief Executive review** (IR – p 22)<br>• **Chief Financial Officer review** (IR – p 52)<br>• **Review of our strategic focus areas** (IR – p 46) |
| **INTELLECTUAL CAPITAL**<br>**Our business model depends on having effective management systems and a strong performance-based ethical culture, producing the most efficient and effective outcomes.** | • **Values-driven** Company culture<br>• Operating Model providing a sequenced and repeatable set of work steps aimed at **delivering** the intended purpose of our teams' work in the most efficient manner<br>• **R249 million** invested in technology roadmap | **To enhance INTELLECTUAL capital**<br>A review of our activities aimed at enhancing is provided in the following sections of our 2018 reports:<br>• **Review of our strategic focus areas** (IR – p 46)<br>• **Our People: Workforce culture and capability** (SR – p 37) |

## OUTCOMES

### The effect of our activities on FINANCIAL capital

- ✓ **Strengthened** balance sheet with no debt
- ✓ Clear capital allocation with dividend policy – **50%** to **75%** pay-out of headline earnings
- ✓ Ended the year with a net cash position of **R11.7 billion**
- ✓ Earnings before interest, tax and depreciation: **R20.6 billion**
- ✓ Total dividend of **R30.24 per share**
- ✖ Decreased market capitalisation of **R91 billion** at end of 2018
- ✖ **25%** decrease in share price from R379 per share at end of 2017 to **R283 per share** at end of 2018

### The effect of our activities on MANUFACTURED capital

- ✓ Invested **R4.5 billion** of capital expenditure in plant and equipment
- ✓ **Second** Sishen modular plant, commissioned in November 2018

### The effect of our activities on INTELLECTUAL capital

- ✓ Sustained growth in the Company's intellectual capital through various investments and activities
  - Investment in skills development: **R232 million**
  - Investment in technical studies: **R153 million**
  - Implemented additional auto-drills, enabling **24/7** drilling
  - Introduced truck payload optimisation, installed advanced control rooms to monitor and manage production in real-time, and advanced process control systems that **increases productivity rates**
  - Second modular plant commissioned on time within budget
  - UHDMS upgrade feasibility study **68%** completed
  - Kolomela mining right amended to **include** Heuningkranz prospecting right

✓ Positive outcome | = Neutral outcome | ✖ Negative outcome

# MEASURING OUR PERFORMANCE
for the year ended 31 December

| VALUE PILLAR | SAFETY AND HEALTH | | | ENVIRONMENT | | | SOCIO-POLITICAL | | |
|---|---|---|---|---|---|---|---|---|---|
| STRATEGIC FOCUS AREAS | Eliminate fatal incidents through a culture of zero harm | Provide leadership on responsible citizenship | Leadership and culture | Provide leadership on responsible citizenship | Proactively engage with key stakeholders | Focus on the Northern Cape | Provide leadership on responsible citizenship | Proactively engage with key stakeholders | Leadership and culture |
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| KPI | ✓ Fatal injury frequency rate (FIFR) | | | ✓ Energy consumption (million GJ) | | | ✖ Social way assessment scores (out of five) (for detail refer to page 43 of the SR) | | |
| | **0** | 0 | 0.016 | **8.85** | 8.94 | 8.45 | **3.0** | 3.1 | 3.3 |
| KPI | ✓ Total recordable case frequency rate (TRCFR) | | | ✓ GHG emissions (Mt $CO_2$-equivalent) | | | | | |
| | **1.80** | 3.23 | 3.90 | **0.96** | 1.00 | 0.94 | | | |
| KPI | ✖ New cases of occupational disease (for detail refer to page 31 of the SR) | | | ✓ Total water withdrawals (million $m^3$) (for detail refer to page 77 of the SR) | | | | | |
| | **5** | 2 | 12 | **30.8** | 33.2 | 24.1 | | | |
| KPI | | | | ✓ Number of level 3, 4 or 5 environmental incidents | | | | | |
| | | | | **0** | 0 | 0 | | | |

✓ Positive outcome

= Neutral outcome

✖ Negative outcome

* Including retrenchments for 2016.

## PEOPLE

- Provide leadership on responsible citizenship
- Implement the operating model
- Leadership and culture

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| ✓ Voluntary labour turnover (%)* | 4.1 | 4.4 | 49.5 |
| ✓ Women in management (%) | 24 | 22 | 21 |
| ✓ Women in workforce (%) | 23 | 21 | 21 |
| ✓ Historically disadvantaged South Africans (HDSAs) in management (%) | 68 | 66 | 62 |

## PRODUCTION

- Implement the operating model
- Extend life of current assets
- Compete through premium products

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| ✖ Sishen (Mt) (for detail refer to page 66 of the IR) | 29.2 | 31.1 | 28.4 |
| = Kolomela (Mt) | 13.9 | 13.9 | 12.7 |

## COST

- Unlock full infrastructure potential
- Sustainably operate mines at a lower unit cost
- Use technology to extract maximum ore value

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| **Sishen free-on-rail (FOR) cash unit cost** | | | |
| = Rand/tonne (for detail refer to page 56 of the IR) | 290.0 | 287.3 | 296.2 |
| = US$/tonne (for detail refer to page 56 of the IR) | 21.9 | 21.6 | 20.2 |
| **Kolomela (FOR) cash unit cost** | | | |
| = Rand/tonne (for detail refer to page 57 of the IR) | 248.6 | 236.7 | 201.1 |
| = US$/tonne (for detail refer to page 57 of the IR) | 18.8 | 17.8 | 13.7 |

## FINANCIAL

- Unlock full infrastructure potential
- Sustainably operate mines at a lower unit cost
- Use technology to extract maximum ore value

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| = Return on capital employed (ROCE) (%) (for detail refer to page 54 of the IR) | 49 | 53 | 51 |
| ✖ Earnings per share (Rand per share) (for detail refer to page 54 of the IR) | 30.08 | 38.63 | 26.98 |
| ✖ Attributable free cash flow (Rm) (for detail refer to page 58 of the IR) | 7,817 | 12,338 | 11,183 |

# CHIEF EXECUTIVE'S REVIEW

**Themba Mkhwanazi**
Chief Executive

**Despite a difficult operating environment, characterised in particular by significant logistical challenges, this has been another year of sterling performance in which we achieved some important milestones in our strategy of unlocking Kumba's full potential and delivering on our core purpose of providing superior value to our stakeholders. We have met our commitment to remaining fatality-free and achieved significant improvement across multiple safety and health indicators.**

**Our focus on maintaining operational discipline and boosting productivity, gained further traction as we reached 65% of benchmark. Together with our drive to optimise cost, this saw us realising close to R1 billion of cost savings against our target of R800 million. The flexibility in our approach to production allowed us to lift product qualities, enabling higher price realisation, while mitigating logistical constraints. We are focused on extending the life of our assets and we have made good progress. Our drive for efficiency and optimisation resulted in the recovery of an additional 56 Mt of Reserves and Saleable Product, successfully unlocking the mineral endowment potential of the Northern Cape beyond the current life-of-mine.**

## DELIVERING ON OUR STRATEGIC AMBITIONS AND CORE PURPOSE

Our ambitious "Tswelelopele" strategy, which means "Progress" in Setswana, was developed and approved in 2017 with the aim of sustaining Kumba's competitiveness in a low iron ore price environment, enhancing the Company's longevity, and driving a strong safety culture. As outlined in my letter last year, our strategy is structured around three transformation horizons:

- Horizon 1 (short-term) – operating our assets at their full potential and enhancing margins, by delivering improved productivity, product quality and operational efficiencies
- Horizon 2 (medium-term) – growing our core business and extending the life-of-mine beyond 2035
- Horizon 3 (longer-term) – expanding our business into attractive growth options

We achieved valuable progress this year in our Horizon 1 and 2 work areas, as well as on each of our four strategic ambitions, namely: achieving our goal of zero fatalities through a culture of zero harm; significantly improving margins to remain globally competitive; sustainably extending the life of our assets beyond 2035; and becoming the employer of choice, through a high-performance culture driven by motivated employees.

### DRIVING A CULTURE OF ZERO HARM

During 2018 the mining industry in South Africa regrettably experienced a high rate of fatalities, while globally, 2019 started with the devastating incident at Vale's operations in Brazil. We are deeply saddened by this tragic loss of lives of our peers, and we extend our thoughts and prayers to their families and loved ones. As a sector, we are looking to learn from this tragic incident, which brings home the reality of the risks in mining, and so clearly highlights why the safety of our people is our first priority. In this context, it is pleasing to report that we have had another fatality-free year, honouring our sacred covenant code and ensuring that every employee and contractor returns home safely, making it two and a half years without a fatal incident. We have also seen a significant further improvement in our leading and lagging safety indicators, reducing the number of high-potential incidents (HPIs) by 67% and achieving a total recordable case frequency rate (TRCFR) of 1.80, well below our target of 2.75. These results, which make us the most improved business in the Anglo American plc Group, reflects the dedication of Kumba's managers and employees in making safety a top priority and embedding our fatalities elimination framework. While this performance is pleasing, we recognise that we cannot let up on our efforts in striving for zero harm. To further emphasise that safety is non-negotiable, Kumba has linked safety to business performance through its incentive structure.

## IMPROVING MARGINS TO REMAIN GLOBALLY COMPETITIVE

Our flexible and efficient production system has made it possible this year to enhance our product portfolio and maximise the value of tonnes to market. Our Fe quality increased to 64.5%, while our lump:fine ratio increased to 68:32 up from 66:34 last year. Our focus on delivering quality has allowed us to secure a valuable price premium on our competitors, providing an uplift of US$2/dmt. This has been aided by strong demand for high-grade products, driven in part by continued tightening of emission controls in China. Our productivity on primary equipment rose from 58% at the end of 2017, to 65% of benchmark, with an ambition to go beyond benchmark by 2022, we delivered close to R1 billion of cost savings against a target of R800 million, enhancing our EBITDA margin to 45% up from 42% in 2017. The breakeven price was contained at US$41/tonne (2017: US$40/tonne), driven by the cumulative effect of the price premia and cost saving initiatives, which largely offset higher on-mine SIB capex, fuel prices and freight rates.

## EXTENDING THE LIFE OF OUR MINES BEYOND 2035

We have continued this year with various activities to extend the life of our mines. Our focused efficiency drive and optimisation initiatives resulted in the recovery of an additional 56 million tonnes of Reserves and Saleable Products, successfully unlocking the mineral endowment potential of the Northern Cape beyond the current life-of-mine. We also made good progress with the feasibility study on converting the Sishen DMS plant UHDMS technology, with the study expected to be completed in the fourth quarter of 2019. In line with our resource development plan, Kumba was also granted the right to expand Kolomela into the adjacent Heuningkranz area, which presents an exciting additional opportunity to extend the life-of-mine.

## BECOMING THE EMPLOYER OF CHOICE WITH A HIGH-PERFORMANCE CULTURE

Building a world class operator that is resilient and agile requires that we develop and leverage the talent of our people. Following the successful completion of the extensive organisational restructuring process, undertaken from 2016 to 2017, we have been implementing various initiatives aimed at embedding an organisational culture that fosters safety, diversity, innovation and performance. We have been rolling out the Kumba Culture and Leadership Code across the Company, undertaken a comprehensive leadership assessment process, launched a leadership capability development programme, and introduced a revitalised team development process to build team cohesiveness and effectiveness across the Company. In July 2018, we introduced our new broad-based employee share ownership scheme, Karolo, for permanent employees below middle and senior management level. We have granted share awards and provided training on the new scheme to all participants.

## PROVIDING SUPERIOR VALUE TO OUR STAKEHOLDERS

In making progress on our strategic ambitions, we have been delivering on our key objective of providing superior value to all our stakeholders:

- our employees, who are at the heart of our business, received R4.6 billion in salaries and benefits
- we created R12.5 billion of value in cash dividends for our shareholders – including employees and our empowerment partners Exxaro and the SIOC Community Development Trust – and delivered headline earnings of R30.28 per share, an excellent outcome given this year's challenges
- the South African fiscus received approximately R4 billion in income tax, as well as royalties of R1 billion
- we continued to promote local businesses, with close to R12 billion of products and services procured from BEE suppliers, of which R1.4 billion was spent on 267 businesses within our host communities, 40% above what we targeted for the year; in line with our aspiration to create five jobs for every permanent job, these businesses created around 2,700 new jobs and provided income for over 16,000 people
- communities in the Northern Cape also benefited from R124 million in social investment projects

## STRONG FINANCIAL PERFORMANCE

Ensuring strong and sustained financial performance underpins our ability to deliver stakeholder value. Despite the various headwinds in 2018, our solid performance resulted in Kumba ending the year with a net cash position of R11.7 billion. We maintained strong headline earnings of R9.7 billion, supported by a 1% increase in the average realised iron ore export price to US$72/tonne (2017: US$71/tonne) and R1 billion in cost savings. Attributable earnings decreased by 22% to R9.6 billion compared to a 2017 result of R12.3 billion which had benefited from the positive impact of an impairment reversal of R4.8 billion before tax.

Attributable and headline earnings per share for the year were R30.08 and R30.28 respectively (2017: R38.63 and R30.47). A total cash dividend of R30.24 per share (2017: R30.97), which represents a 100% pay-out ratio on headline earnings per share has been announced.

## SOLID OPERATIONAL PERFORMANCE

These financial results reflect a solid performance at our operations. During the year we strengthened the alignment between sales and operations, and increased flexibility across the system to safely and sustainably deliver improved operational performance and enhanced cost efficiency. Ongoing implementation of the Operating Model has ensured the continuous improvement of operations at both Sishen and Kolomela. Technology has been a key enabler of safety and strategic delivery. We implemented various initiatives aimed at improving primary mining equipment productivity, for example by using double-sided loading, optimising haul distances and improving shovel and truck reliability. We rolled out

# CHIEF EXECUTIVE'S REVIEW
CONTINUED

additional auto-drills enabling 24/7 drilling, implemented truck payload optimisation, installed advanced control rooms to monitor and manage production in real-time, and introduced advanced process control systems to increase productivity rates.

Total tonnes mined increased 8% to 292.5 Mt, with operating efficiency improving from 58% last year to 65% of benchmark in 2018. Total production reduced by 4% to 43.1 Mt, as planned, within our guidance of 43 to 44 Mt. At the mine level, Sishen delivered 29.2 Mt and Kolomela 13.9 Mt of production, with ongoing improvements in productivity resulting in the reduction of unscheduled work by up to 40%. Sishen and Kolomela achieved an 81% and 80% mine to plan compliance, respectively.

Total sales volumes were well within guidance of 42 to 44 Mt at 43.3 Mt (2017: 44.9 Mt), although export sales volumes decreased by 4% to 40.0 Mt (2017: 41.6 Mt). As a result of a significant number of incidents along the Iron Ore Export Channel (IOEC) line during the year, volumes railed to port reduced by 3% to 40.6 Mt (2017: 42.0 Mt). In addition to seven train derailments, Transnet declared force majeure on Kumba following a truck colliding with a railway bridge, resulting in the temporary closure of the IOEC line in November 2018.

Engagements with Transnet to address rail performance are going well and we have seen a valuable improvement in the relationship over the second half of the year. We have formed a joint executive steering committee that meets regularly to manage performance on the IOEC line; this has led to better collaboration as demonstrated by the very efficient construction and reopening of the November 2018 Transnet railway bridge incident two days earlier than expected. We appreciate this new level of engagement with the Transnet team.

At Saldanha port, severe weather disruptions together with the scheduled upgrade of the ship-loader, which resulted in single loading over a six-week period, contributed to total shipment decreasing by 4% to 40.0 Mt (2017: 41.6 Mt). To partly mitigate these events, 1.4 Mt of iron ore was shipped through the multi-purpose terminal.

### PROGRESS ON COMMUNITY, HEALTH AND ENVIRONMENTAL ISSUES

In addition to our strong safety, financial and operational performance, there were other encouraging developments over the year. I am pleased to report that we have continued to make good progress with the relocation of members of the Dingleton community in full alignment with the International Finance Corporation's (IFC) performance standards. Of the 517 original families at Dingleton, only 10 households remain to be resettled in the new purpose-built suburb of Siyathemba in Kathu. Kumba has invested around R3 billion in establishing Siyathemba, building houses, a school, clinic, police station and associated infrastructure, and establishing effective community representative forums. Engagements with the remaining households at Dingleton are ongoing and the legal process remains on track.

We have continued to promote the health and wellbeing of our people, and to implement measures to safeguard the environment. This year, five new cases of occupational health diseases were diagnosed and reported; all individuals have been rehabilitated and returned to work. For a consecutive year, we did not record any new cases of diagnosed occupational respiratory disease, including occupational TB. We also saw good results from our environmental sustainability programme: no major environmental incidents were reported for the third consecutive year, we have successfully scaled up our rehabilitation programme, and we delivered steady improvements in managing dust emissions at our Sishen operation.

## OUTLOOK

Despite the pleasing results this year, we recognise that we cannot afford to be complacent. We are currently in the third quartile of the global cost curve and face various structural factors that disadvantage us – such as our stripping ratio, hauling distances and transport costs – which we anticipate will remain a challenge. Looking to the year ahead, we will continue with our strong focus on delivering our strategy to maximise the potential of our world-class asset base by leveraging our existing capabilities, while embracing new opportunities and technologies to produce safely and efficiently.

We will be maintaining an unwavering commitment to driving a culture of safety and health across the organisation, and will be exploring further opportunities to boost our productivity and drive further operational efficiencies across our operations. We will continue to work collaboratively with all affected parties to resolve the remaining concerns at Dingleton, and we will be looking to deepen our strategic collaboration with Transnet, working with them to enhance system stability and avoid any future derailments. The robustness and flexibility of our approach to the challenges we face from the external environment not only mitigates but also allows us to unlock value. Through our strategy we are maximising the value of our enhanced product portfolio, enabling margin enhancement of US$10/tonne and extending the life of our assets beyond 2035.

## IN APPRECIATION

Underpinning our ability to deliver on our strategy, and progress towards our goals, has been the relentless focus and dedication of our 12,000 employees (including contractors). The results we have achieved this year reflect the quality both of the leadership team and the amazing people across the Company, who have displayed a strong commitment to fostering teamwork, driving accountability, creating a resilient business and showing good-natured enthusiasm in the execution of their duties. I wish to thank each and every one of Kumba's employees for this commitment that provides the foundation for ensuring the Company's continued success.

Finally, I extend my appreciation to my colleagues on the Kumba Board and executive team for their counsel and support in developing and delivering on Kumba's strategic ambitions. This has been another encouraging year for the Company, which I believe sets us up well for further value growth.

**Themba Mkhwanazi**
Chief Executive

15 March 2019

# OUR OPERATING CONTEXT

## THIS YEAR WE HAVE IDENTIFIED THE FOLLOWING ISSUES THAT ARE HAVING A MATERIAL IMPACT ON KUMBA'S ABILITY TO CREATE VALUE, MANY OF WHICH WERE ALSO PRIORITISED IN PREVIOUS YEARS:

1. **Iron ore price volatility**
2. **Flattening of the producer cost curve globally**
3. **The impact of external variables**
4. **Rising expectations across stakeholder groups**
5. **A strong sector-based commitment to eliminate fatalities**
6. **The group-wide drive for operational excellence and sustainable development**
7. **Maintaining the quality of iron ore reserves and life of asset**
8. **Challenges in the regulatory and policy environment**

## 1. IRON ORE PRICE VOLATILITY

### CONTINUING VOLATILITY IN IRON ORE PRICES MERITS A CAUTIOUS LONGER-TERM OUTLOOK

Prices averaged US$69/tonne CFR for 2018, marginally lower than 2017. The Platts 65/62 index differential rose to a record US$27/dmt and averaged US$21/dmt for 2018, around 1.3 times the 2017 level. Although a valuable increase on the price levels of 2015, when iron ore dropped to below US$40/dmt and averaged around US$56/dmt CFR, this is still substantially below the annual average price of US$135/tonne CFR reached in 2013. The continuing price volatility experienced during the year reflected changing supply and demand dynamics, as well as broader levels of uncertainty at a global geopolitical level, with international markets and investor sentiment impacted by the US/China trade dispute, continuing uncertainties associated with the Brexit process and Trump administration, and signs of an economic slowdown in key markets. With recent evidence of a general slowing in China's steel-intensive, infrastructure-led growth, and further supply growth from Australia and Brazil, most analysts forecast iron ore prices in a mid-term range of US$50 to US$65/tonne (see graph on the next page) prior to the failure of one of Vale's tailing dams in late January 2019, but have since sharply revised their price forecast upwards.

### IMPLICATIONS FOR VALUE

As a price-taker in the global iron ore market, volatility in iron ore prices contributes to obvious uncertainty for our business. An important potential differentiator is that we produce a high quality iron ore, which commands a price premium.

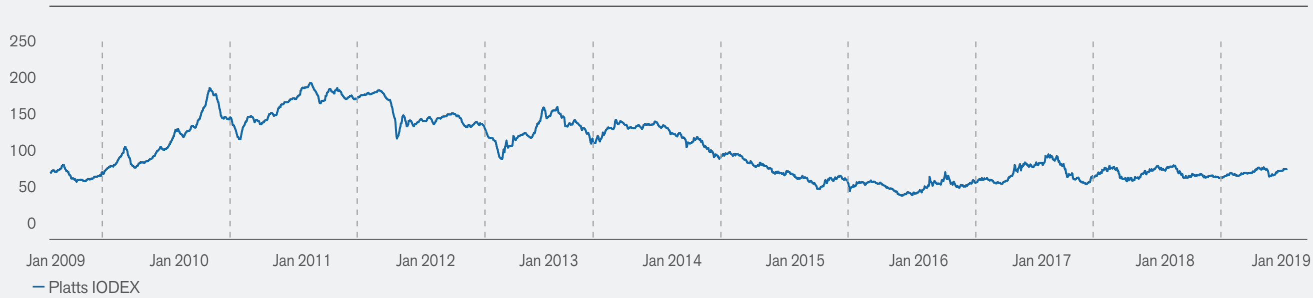
### OUR STRATEGIC RESPONSE

Given the recent price volatility, and current expectations regarding generally flat global iron ore prices, we are focusing our actions on making Kumba more competitive and significantly improving margins through our Tswelelopele programme. We have identified various opportunities to optimise our product portfolio to realise the price premium associated with higher quality iron ore. During 2018, as a direct result of the Tswelelopele programme, our product quality increased to 64.5% compared to 64.1% in 2017.

### STRATEGIC FOCUS AREA

| | | | |
|---|---|---|---|
| Sustainably operate mines at **lower unit costs** (page 46) | **Unlock full infrastructure potential** (page 48) | **Use technology** to extract maximum value (page 48) | Compete through **premium products** (page 46) |

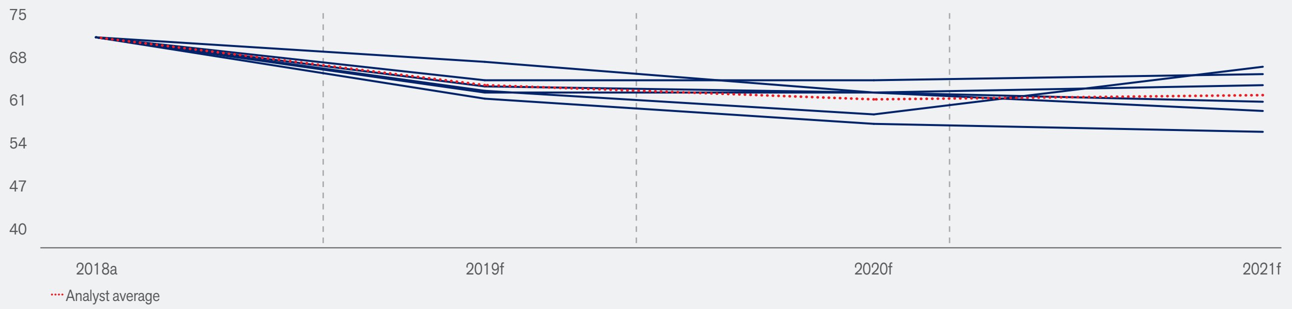
**Platts IODEX 62% Fe CFR**



# OUR OPERATING CONTEXT

CONTINUED

**Forecast nominal iron ore price**




## 2. FLATTENING OF THE PRODUCER COST CURVE GLOBALLY

### CONTINUED FLATTENING OF THE GLOBAL COST CURVE ACROSS THE SECTOR HEIGHTENS THE NEED TO DRIVE OPERATIONAL EFFICIENCIES

The recent volatility in the global iron ore price has been accompanied by a general flattening of the production cost curve across the sector. This has been driven by new low-cost supply opportunities, weaker currencies in some producer markets, and enhanced efficiencies among most producers, aided in some instances by recent innovations in technology. With key competitors bringing low-cost production online, Kumba has moved from the second quartile on the cost curve to the third quartile. This year, total non-controllable costs increased by US$2/tonne year-on-year. Freight rates from Saldanha to Qingdao were up US$2/tonne, mining inflation added US$4/tonne and higher market premiums offset US$4/tonne. Controllable cost decreased by US$1/tonne mainly due to cost savings and price premium from our enhanced product portfolio, offset by higher SIB capex.

### IMPLICATIONS FOR VALUE

The increased pressure from competitors, who have greater opportunities to reduce costs, has obvious implications for value creation at Kumba. Coupled with a low-price environment, and increased cash costs, this is placing pressure on margins.

### OUR STRATEGIC RESPONSE

Responding to this competitive pressure has been a key driver behind our Tswelelopele strategy, which seeks to enhance the performance of our current assets and deliver a substantial margin improvement of US$10/tonne by 2022 with our cost saving initiatives targeting R2.6 billion cumulatively over this period, with 2018 delivering approximately R1 billion of cost savings.

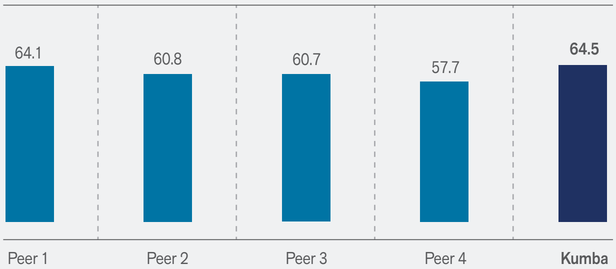
**STRATEGIC FOCUS AREA**

Sustainably operate mines at **lower unit costs** (page 46)

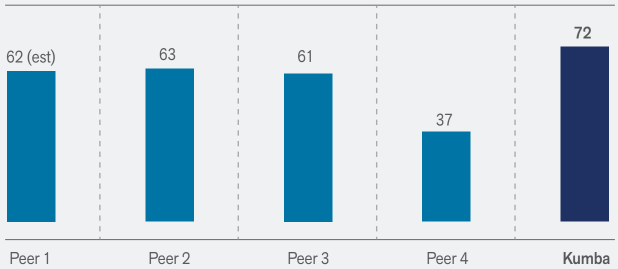
**Unlock full infrastructure potential** (page 48)

Compete through **premium products** (page 46)

**2018 average Fe content, peer comparison**




**2018 achieved price, peer comparison** (US$/dmt, FOB)



## 3. THE IMPACT OF EXTERNAL VARIABLES

### IMPACT OF SIGNIFICANT EXOGENOUS FACTORS SUCH AS DERAILMENTS, PLACES PRESSURE ON MARGINS

We have been particularly impacted this year by a significant number of incidents along the IOEC line. In addition to seven derailments, Transnet declared force majeure on Kumba following a truck colliding with a railway bridge, resulting in the temporary closure of the IOEC line. At Saldanha port, severe weather disruptions together with the scheduled upgrade of the ship loader, which resulted in single loading over a six-week period, negatively impacted shipments. These factors caused significant lost sales opportunities, with disappointing rail performance reducing port stocks and substantially impacting revenue.

### IMPLICATIONS FOR VALUE

**Logistical challenges have a negative impact on revenue and place additional pressure on margins.**

### OUR STRATEGIC RESPONSE

We focused on improving the strategic relationship and level of engagement with Transnet. A joint executive steering committee was put in place to manage the performance on the IOEC line and this has led to an improvement in communication, collaboration and performance. Transnet also provided access to the multipurpose terminal at Saldanha port which ensured that we had an alternative shipping facility during the refurbishment of the ship loader. Additionally a back-of-port solution was offered to increase wagon capacity.

### STRATEGIC FOCUS AREA

**Unlock full infrastructure potential** (page 48)

## 4. RISING EXPECTATIONS ACROSS STAKEHOLDER GROUPS

### INCREASING DEMANDS FROM STAKEHOLDERS HIGHLIGHT THE IMPORTANCE OF ACCOUNTABILITY AND RESPONSIBILITY

Globally, companies are coming under increasing scrutiny from a range of different stakeholders, many of whom have declining levels of trust in the activities and motivations of the private sector. Although this applies across all business sectors, the mining industry faces particular scrutiny: shareholders and investors expect improved financial performance following recent challenges in global commodity cycles; governments look to the resource sector as a source of tax revenue and to assist in service delivery; NGOs are becoming more active in driving corporate accountability; and host communities have heightened expectations on mining companies to deliver improved economic opportunities, infrastructure and social services. In South Africa, the structurally high levels of unemployment and underemployment, increasing youth activism, and continuing challenges in government service delivery, are placing particular pressure on mining companies to engage proactively with host communities to maintain their social licence to operate.

### IMPLICATIONS FOR VALUE

**Maintaining positive relationships with our key stakeholders is the foundation for our ability to create value. Heightened stakeholder expectations, and the increasingly vocal nature of their demands are testing the quality of some of our critical relationships, and often have significant implications for our cost base. Maintaining a collaborative approach, and finding the right balance between competing stakeholder interests, requires proactive engagement and response strategies.**

### OUR STRATEGIC RESPONSE

For Kumba, long-term success is only possible with mutually beneficial partnerships; these include our employees, shareholders, government, suppliers and the communities where we operate. Reinforcing a partnership approach is one of our key strategic enablers. For details on how we created value for our partners refer to page 16.

### KEY ENABLERS

**Proactively engage with key stakeholders** (page 50)

Provide leadership through **responsible citizenship** (page 50)

Our operating context and strategy

# OUR OPERATING CONTEXT

CONTINUED

## 5. A STRONG SECTOR-BASED COMMITMENT TO ELIMINATE FATALITIES

### INSTILLING A CULTURE OF ZERO HARM AND ELIMINATING FATALITIES IN MINES RIGHTLY REMAINS A HIGH-PROFILE PRIORITY

2018 saw an unacceptable number of fatalities within the South African mining sector. Globally, 2019 started with the devastating tragedy at Vale's operations near the town of Brumadinho; this has been a very sobering reminder of the significant risks associated with mining activities. The safety of our people, driving a culture of zero harm and eliminating all fatalities in the mining sector remains a critical priority for mining companies, unions and government. Kumba is pleased to report that it has operated fatality-free since May 2016. We have continued to see very positive improvements this year across most of our leading and lagging indicators, and have achieved almost all of our safety-related targets for the year. Despite this encouraging performance, we recognise the need to maintain a high level of vigilance. This year we reported seven high-potential incidents (HPIs). Although this is a significant and pleasing improvement on 21 in 2017 and 39 in 2016, each of these incidents could have resulted in a fatality, and remains a source of concern. We place a strong emphasis on learning from these HPIs as a critical basis for driving improved safety performance.

### IMPLICATIONS FOR VALUE

Protecting our workforce from harm is a moral imperative, a fundamental human right, and a non-negotiable aspect of doing business. Our focus on driving a culture of zero harm is also a direct investment in the productivity of the business: safe and healthy employees contribute to a more motivated and productive workplace, and protect and enhance the organisation's reputation. Avoiding safety incidents also has important benefits in terms of avoiding potential legal liabilities and operational stoppages, and maintaining our licence to operate.

### OUR STRATEGIC RESPONSE

Eliminating fatalities by entrenching a culture of zero harm is a top strategic ambition, driven under the personal leadership of Kumba Chief Executive Themba Mkhwanazi and implemented through our comprehensive "elimination of fatalities framework".

### KEY ENABLERS

Provide leadership through **responsible citizenship** (page 50)

**Proactively engage with key stakeholders** (page 50)

**Eliminate fatal incidents**

## 6. THE GROUP-WIDE DRIVE FOR OPERATIONAL EXCELLENCE AND SUSTAINABLE DEVELOPMENT

### DRIVING EFFICIENCY IMPROVEMENTS ACROSS THE COMPANY

The recent downturn in mineral and metal prices across almost all commodity groups placed particular pressure on mining companies globally to improve productivity, drive efficiencies and impose better capital discipline. At the same time, there are growing expectations on companies to make a meaningful contribution in addressing developmental priorities, as reflected for example in the UN Sustainable Development Goals (SDGs). Responding to the challenging commodity context, our ultimate parent company, Anglo American plc, has undertaken a radical restructuring process; started in 2013, this has involved a significant change in its mining portfolio, as well as a sustained Group-wide drive on operational excellence. The Group has also recently agreed an ambitious sustainability strategy; with demanding social and environmental targets aligned with relevant SDGs, aimed at delivering a step change across the entire mining value chain.

### IMPLICATIONS FOR VALUE

**The strong group-wide focus on operational excellence and sustainability – delivered in part through the Operating Model – has been an important additional driver behind our concerted efforts to improve operational efficiencies and enhance our societal contribution. Our operations have continued to benefit from implementing the Operating Model, which has a direct positive impact on safety, productivity, and improved efficiencies. Our Tswelelopele programme has delivered material financial benefits and maintained our viability in an increasingly competitive and volatile commodity-price environment, driving change in a coordinated manner, simplifying our governance processes, and building a high-performance culture.**

### OUR STRATEGIC RESPONSE

As part of operating our assets at full potential we continue to improve our operating equipment efficiency, reaching 65% of benchmark in 2018 and operating beyond benchmark to P101 by 2022.

We have also recently commenced a process aimed at delivering on the Anglo Group's ambitious sustainability strategy.

For more information refer to SR page 17

| STRATEGIC FOCUS AREA | | | | |
|---|---|---|---|---|
| Sustainably operate mines at **lower unit costs** (page 46) | **Unlock full infrastructure potential** (page 48) | **Implement the Operating Model** (page 47) | **Use technology** to extract maximum value (page 48) | Compete through **premium products** (page 46) |

| KEY ENABLERS |
|---|
| Provide leadership through **responsible citizenship** (page 50) |
| **Leadership and culture** (page 51) |
| **Proactively engage with key stakeholders** (page 50) |

# OUR OPERATING CONTEXT
CONTINUED

## 7. MAINTAINING THE QUALITY OF IRON ORE RESERVES AND LIFE OF ASSET

### IDENTIFYING OPPORTUNITIES TO EXTEND IRON ORE RESERVES AND LIFE OF ASSET REMAINS A CRITICAL PRIORITY

As of 31 December 2018, Kumba, from a 100% ownership reporting perspective, had access to an estimated haematite ore reserve of 732.9 million tonnes at an average unbeneficiated or feed grade of 59.1% Fe from our two mining operations: Kolomela (188.2 Mt at 63.9% Fe, against a 50% Fe cut-off grade) and Sishen (544.6 Mt at 57.5% Fe, against a 40% Fe cut-off grade). A 8% net increase of 56.5 Mt is noted for the total Kumba ore reserve compared to 2017. Sishen has an estimated 14 years of reserve life in total from 2018, while Kolomela has an estimated 14 years of reserve life. Further details are provided in the Ore Reserve (and Saleable Product) and Mineral Resource report (pages 6 to 9).

### IMPLICATIONS FOR VALUE

**Ensuring reliable access to quality iron ore reserves is the foundation of our ability to generate revenue. With peak production currently scheduled to taper off by 2031, it is critical that we identify and realise new opportunities to maintain our current levels of production beyond the remaining life-of-mines.**

### OUR STRATEGIC RESPONSE

As part of our Tswelelopele programme we are driving our operations to full potential by improving efficiencies, optimising the mine plan and mine design while improving yields; this realised an increase in the overall Ore Reserve of 8% and Saleable Product of 10%.

Through our technology strategy, the feasibility study for the DMS plant conversion to UHDMS is 68% complete and on track for approval in Q4 2019. The UHDMS technology allows Sishen the flexibility to leverage off product quality and volume depending on the price, premia and rail capacity. The Kolomela mining right was successfully amended to include the Heuningkranz prospecting right.

#### STRATEGIC FOCUS AREA

| | | |
|---|---|---|
| **Use technology** to extract maximum value (page 48) | **Extend life of current assets** (page 47) | **Focus on the Northern Cape** (page 47) |

## 8. CHALLENGES IN THE REGULATORY AND POLICY ENVIRONMENT

### DESPITE SOME RECENT POSITIVE POLICY DEVELOPMENTS, REGULATORY UNCERTAINTY REMAINS A CHALLENGE

Over the past few years there has been significant regulatory and policy activity, with important implications for our activities. This has included new regulations relating to resource extraction, company and tax law, labour relations, environmental, health and safety performance, and the delivery of social and developmental objectives. In September 2018, the new Minister of Mineral Resources published the 2018 Mining Charter following a consultative process. While this has provided important clarity on certain provisions, and addressed some of the concerns expressed by the mining sector on earlier drafts, some uncertainties remain relating to the application of some the Charter's key provisions. Another significant policy development this year, which is accompanied by uncertainty regarding its full implications, was the National Assembly's decision to proceed with a constitutional amendment to expropriate land without compensation. Kumba is fully committed to meeting South Africa's objectives on socio-economic transformation, and we have a strong track record in delivering in this area. We will continue to engage constructively with government to identify solutions aimed at optimising the distribution of value inherent in the country's mineral resources.

### IMPLICATIONS FOR VALUE

**Increasing regulatory measures, and any uncertainty in the interpretation and application of legal requirements, impacts the way we mine, can result in greater compliance-related costs, and may affect the nature of the relationship between business and government. Regulatory and policy certainty is essential to encourage and enable long-term investment decisions, both from existing and potential local and international investors.**

### OUR STRATEGIC RESPONSE

We carefully monitor regulatory and policy developments, track and report on our regulatory compliance, and engage regularly with government and regulatory officials, both directly as well as through business representative bodies.

### KEY ENABLERS

**Proactively engage with key stakeholders** (page 50)

Provide leadership through **responsible citizenship** (page 50)

# ADDRESSING STAKEHOLDER INTERESTS

Through being a trusted corporate leader Kumba wishes to be part of the value chain that supports and reinforces shared, sustainable prosperity for our stakeholders. Our stakeholder engagement strategy takes into account issues that affect our business in a way that is collaborative and aimed at society's wider goals, and responds to interests, concerns and expectations of our key stakeholders.

The strategy is based on proactive engagement with stakeholders on their main interests, concerns and expectations. The aim is to formulate an integrated approach to engaging key stakeholders, promote a shared vision and value proposition amid dynamically changing stakeholder positions, and maintain the Company's reputation as partner of choice in creating long-term sustainable value.

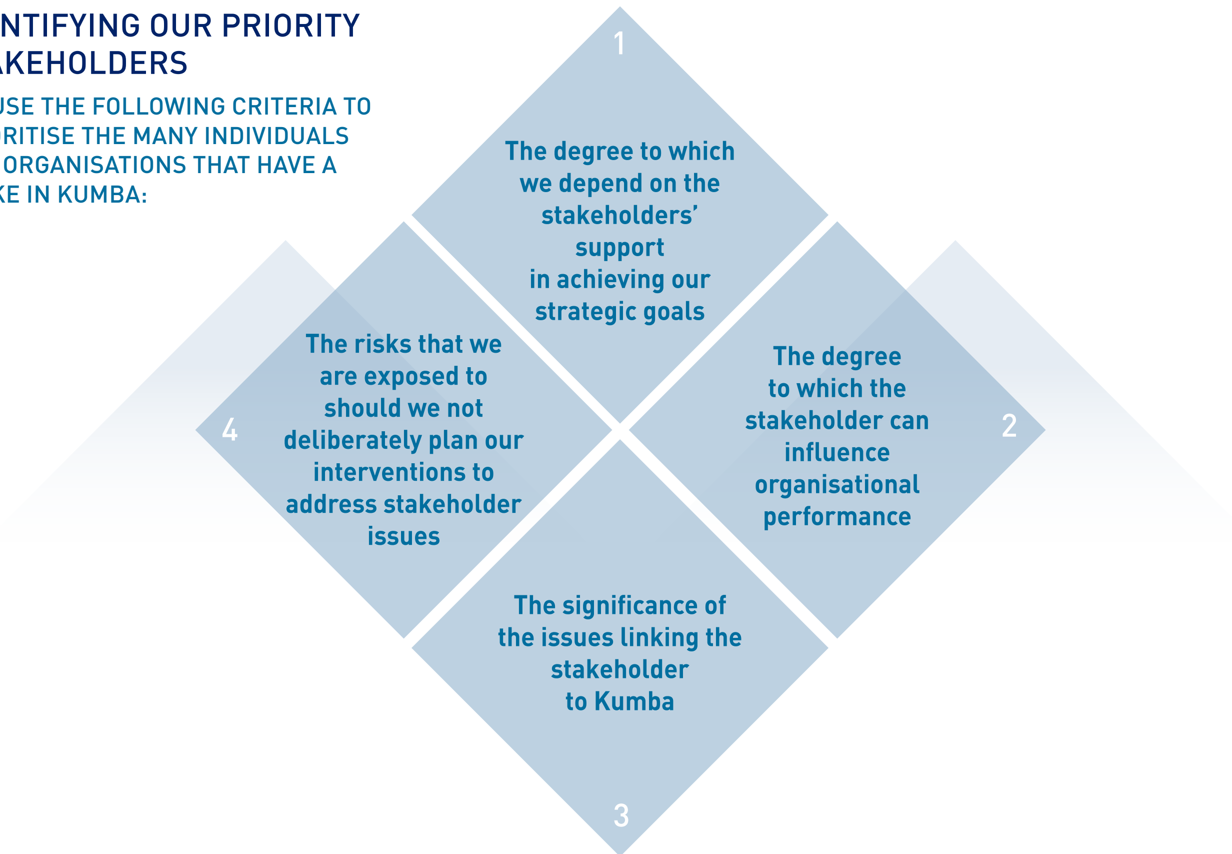
Our improved stakeholder engagement planning, allows for structured and constructive engagements at appropriate levels of the organisation. This increased the level of trust between Kumba and its key stakeholders. Healthy, constructive relationships were maintained, particularly with the regulator, local and provincial government, employees and communities.

This resulted in, among others, the granting of critical regulatory authorisations for Sishen and Kolomela, progressive post-resettlement initiatives for Siyathemba and exceptional growth in localised preferential procurement. However, a number of authorisations are outstanding, which are impeding us to have meaningful economic development in our local communities.

Engaging with our stakeholders is important in reinforcing our collaborative approach. Kumba hosts stakeholder days every two years; the last one held on 8 November 2017. Valuable feedback was received from stakeholders at the event and key deliverables have been identified to address fundamental issues.

## IDENTIFYING OUR PRIORITY STAKEHOLDERS

### WE USE THE FOLLOWING CRITERIA TO PRIORITISE THE MANY INDIVIDUALS AND ORGANISATIONS THAT HAVE A STAKE IN KUMBA:



## ENGAGING OUR KEY STAKEHOLDERS

**Informed by the criteria, we have grouped our stakeholders as outlined in the table on pages 33 to 35 and identified their key interests, concerns and expectations based on our interactions. For Kumba, this results in an impact on our Capitals and we review this carefully to find the most effective trade-offs to ensure that we reach our common goals in a sustainable manner.**

For more information on how Kumba responds to material stakeholders' issues refer to page 22 in the SR

| STAKEHOLDER | ENGAGEMENT CHANNEL | KEY INTERESTS, CONCERNS OR EXPECTATIONS | IMPACT ON CAPITALS |
|---|---|---|---|
| **Investors, shareholders, BEE partners**<br>Shareholders/investors (Anglo American plc, IDC and PIC), including our BEE partners (Exxaro and SIOC CDT) analysts | • Investor days and roadshows<br>• Annual reports<br>• Website<br>• Results presentation<br>• Mine visits<br>• Workshops<br>• Meetings<br>• Stakeholder days | • Costs, growth and sustainability of the Company in context of volatile iron ore prices<br>• Securing mining rights and other regulatory issues<br>• Empowerment status<br>• Labour relations<br>• Dividends<br>• Dingleton resettlement<br>• Logistical constraints on Iron Ore Export Channel<br>• Transformation<br>• Governance<br>• Technology roadmap | |
| **Unions**<br>NUM, AMCU, Solidarity and UASA<br>**Employees** | • Ongoing dialogue through established channels<br>• Operational leadership teams<br>• Visible felt leadership (VFL)<br>• Tripartite Health and Safety Initiative<br>• Future forums<br>• Managers/team dialogues – surveys and employee presentations<br>• Company intranet and newsletters<br>• Electronic notice boards/ public display<br>• Stakeholder days<br>• Executive roadshows | • Changes in shift patterns<br>• Housing and living conditions<br>• Wages and benefits (wage negotiations)<br>• Employee share ownership scheme<br>• Career progression<br>• Production and performance<br>• Life-of-mine and/or strategic direction<br>• Transformation | |
| **Customers** | • Regular meetings<br>• Annual reports<br>• Website<br>• Technical conferences<br>• Mine visits<br>• Industry conferences | • Product/service quality and consistency<br>• Security of supply<br>• Contracts/price<br>• Performance reliability | |
| **Media**<br>National and local media | • Annual reports<br>• Press releases<br>• Results presentations<br>• Mine visits<br>• Interviews | • Dingleton resettlement<br>• Thabazimbi exit<br>• Kumba performance<br>• Good corporate citizenship<br>• Mining rights and regulatory issues<br>• Strategy<br>• Sustainability of the Company<br>• Labour relations<br>• Transformation<br>• Technology roadmap<br>• Markets and products | |

# ADDRESSING STAKEHOLDER INTERESTS
## CONTINUED

| STAKEHOLDER | ENGAGEMENT CHANNEL | KEY INTERESTS, CONCERNS OR EXPECTATIONS | IMPACT ON CAPITALS |
|---|---|---|---|
| **South African government**<br>National departments: Mineral Resources, Water and Sanitation, Environmental Affairs, Cooperative Governance and Traditional Affairs, Public Works, Public Enterprises and Finance<br>Northern Cape provincial governments<br>District municipalities (DM) and local municipalities (LM) where Sishen and Kolomela operate – John Taolo Gaetsewe DM, Gamagara LM, Tsantsabane LM, GA Segonyana LM and Joe Morolong LM | • Annual reports<br>• Website<br>• Mine visits<br>• Meetings<br>• Presentations<br>• Workshops<br>• Press releases<br>• Press conferences<br>• Rehabilitation trust<br>• Stakeholder days<br>• Regulatory audits/inspections<br>• Integrated development programme forums<br>• Working groups | • Legal compliance, especially on safety, health and environmental performance<br>• Transformation and B-BBEE delivery<br>• Licensing authorisations, including the application to transfer Thabazimbi to ArcelorMittal SA (all authorisations granted)<br>• Creating jobs through growth<br>• Sustained contribution to national tax base<br>• Domestic supply and pricing of iron ore<br>• Community development and progress on implementation of social and labour plans<br>• Contribution to local infrastructure and service delivery<br>• Ensuring responsible governance practices and respect for rights<br>• Dingleton resettlement (relocation of remaining homeowners and institutions, and the sustainability and integration of Siyathemba, demolishing and deproclamation of Dingleton)<br>• Municipal capacity development<br>• Dust<br>• Water management/supply<br>• Dingleton asbestos (refer to page 71 in the SR for additional information) | |
| **NGOs** | • Annual reports<br>• Website – forums<br>• Written correspondence<br>• Meetings – review Committee | • Funding for community development<br>• Collaboration on community projects<br>• Human rights<br>• Transparency in environmental disclosures<br>• Responsible mining | |
| **Host communities**<br>Tsantsabane and Gamagara community groups, and our labour sending communities | • Complaints and grievance procedure<br>• Socio-Economic Assessment Toolbox (SEAT) and other community engagement sessions<br>• Annual reports<br>• Website (inclusive Facebook/ Twitter)<br>• SMME workshops and Chief Executive engagements with business forums<br>• Stakeholder days<br>• Advertorials, radio interviews, flyers and notices | • Localised preferential procurement and employment opportunities<br>• Enterprise development<br>• Community investment initiatives<br>• Nature of engagement structures<br>• Management of environmental impact<br>• Transparency and engagement measures<br>• Financial compensation for Dingleton community<br>• Education<br>• Host stakeholder day every two years | |

| STAKEHOLDER | ENGAGEMENT CHANNEL | KEY INTERESTS, CONCERNS OR EXPECTATIONS | IMPACT ON CAPITALS |
|---|---|---|---|
| **Political parties**<br><br>African National Congress; Democratic Alliance and Economic Freedom Front | • Annual reports and website<br>• Meetings | • Similar to government issues discussed on page 34 | |
| **Business peers**<br><br>Minerals Council of South Africa<br><br>Neighbouring mining companies (Northern Cape Mining Leadership Forum)<br><br>Other businesses operation in local municipalities | • Annual reports and website<br>• Meetings and presentations<br>• Leadership forums | • Mining Charter review and its impact on the industry<br>• Local preferential procurement<br>• Education and career development and critical skills<br>• General knowledge sharing on our approach to managing material issues<br>• Shared value and shared vision (a joint socio-economic development strategy for the Northern Cape)<br>• Safety | |
| **Suppliers** | • Direct supplier engagements<br>• Annual reports and website<br>• Meetings with local community business forums<br>• Workshops | • Procurement opportunities, even beyond Kumba<br>• Contract terms<br>• Promoting localised procurement<br>• Development of an industrial park in Kathu<br>• Iron Ore Export Channel tariffs and penalties and efficiencies/optimisation<br>• Collaboration with junior miners | |

# MATERIAL RISKS AND OPPORTUNITIES

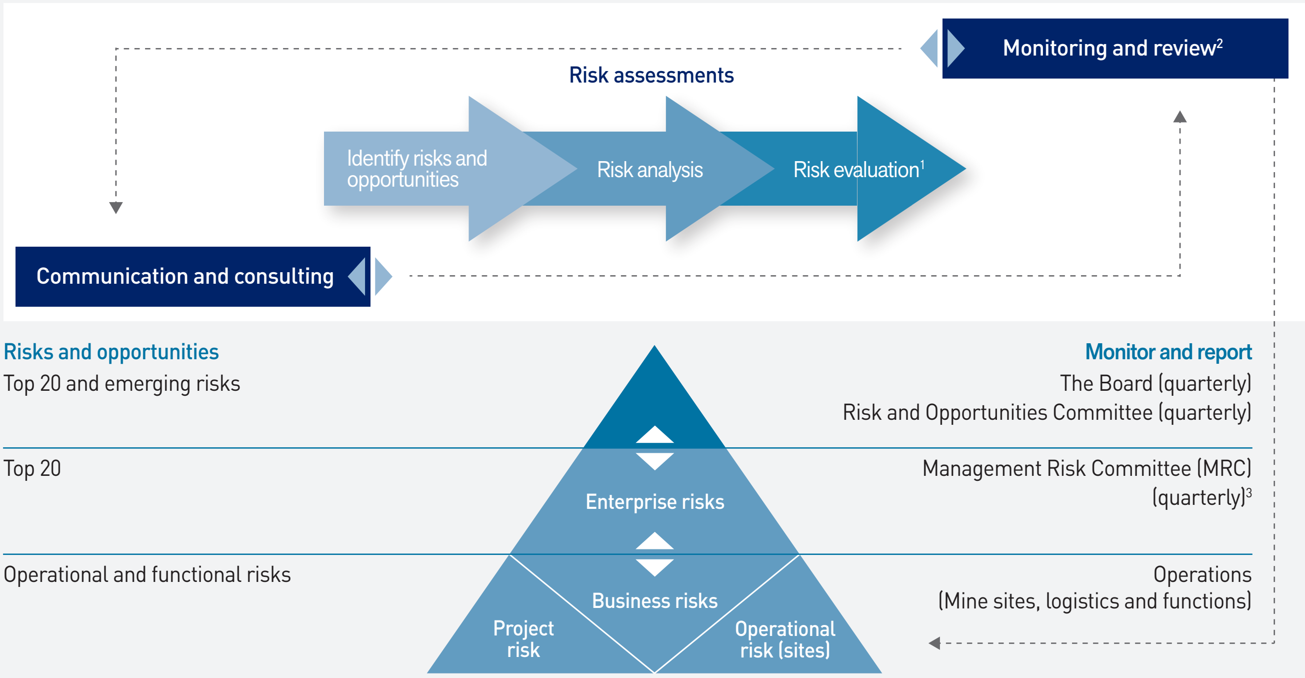
## The mining industry faces an extensive range of risks that continue to be volatile and require agile decision making to ensure implementation of risk management strategies that mitigate exposure and harness available opportunities.

Kumba's Risk and Opportunities Committee oversees risk management on behalf of the Board and receives regular feedback from management on all risk-related activities. The Committee continually assesses all risk governance structures and lines of defence in conjunction with the Audit Committee to ensure that roles, responsibilities and accountabilities for identifying, managing, mitigating, reporting and escalating risks and opportunities within the Company are defined.

For further responsibilities of the Committee refer to the governance section on page 89.

## THE RISK AND OPPORTUNITIES COMMITTEE AND MANAGEMENT TEAM PROMOTE A CULTURE OF RISK GOVERNANCE AND AWARENESS THROUGHOUT THE ORGANISATION.

**KUMBA'S RISK MANAGEMENT PROCESS**




1 Ensure that appropriate controls and responses are in place to mitigate the risks and manage identified opportunities (recorded in risk registers).
2 Regularly analysing and monitoring the effectiveness of current controls (three lines of defence). Regular and timely reporting to the Executive Committee, the Risk and Opportunities Committee and the Board. Risk management is integrated within management's everyday agenda to ensure that mitigation actions for identified risks are implemented.
3 The MRC is a sub-committee of Exco responsible for managing risks.

## RISK APPETITE AND TOLERANCE

### Kumba defines risk appetite as the nature and extent of the risk the Company is willing to accept in relation to the pursuit of its objectives; risk tolerance refers to the organisation's strategic capacity to accept or absorb risk.

In the context of accelerated implementation of the Tswelelopele strategy and a continuously changing operating environment, our risk appetite and tolerance were continuously reviewed to ensure decision-making is aligned with the Company's strategy, improves the resilience of the organisation and creates sustainable value for all stakeholders.

Risk appetite and tolerance are high on the Board's agenda and are a core consideration of our enterprise risk management approach. Risk appetite and tolerance consider the relationship between potential consequences of key risks and the actual condition of the controls or management actions that mitigate those consequences.

The risk tolerance and appetite are reviewed and approved by the Kumba Board on a quarterly basis.

Kumba looks at risk appetite from the perspective of severity of the consequences should the risk materialise, any relevant internal or external factors influencing the risk, and the status of management actions to mitigate the risk. If a risk exceeds tolerance, it will threaten the achievement of objectives and may require a change in strategy. Risks that are approaching the limit of Kumba's risk appetite levels may require management actions to be accelerated or enhanced in order to ensure the risks remain within acceptable levels.

## PURSUING OPPORTUNITIES

In executing our strategy, decision-making is supported by a robust risk management process which also includes realising available opportunities. An opportunity is defined as a set of exploitable circumstances with uncertain outcome, requiring commitment of resources and my involve exposure to risk.

Kumba has committed resources to realise the following key opportunities:

- The Tswelelopele programme aimed at securing "Transformation to full potential" has captured the following opportunities:
  - Significantly improving margins (US$10/tonne improvement) through various opportunities which will optimise our production portfolio to realise price premiums associated with higher quality ore
  - enhance the performance of our current assets by improving overall equipment efficiency, reducing external spend and optimising our Operating Model
  - leverage our endowment, grow our core business and may further extend our life-of-mine beyond 2035 (see page 30)
- exploring available options to increase our logistics capacity to cater for medium-term growth
- partnering with national or international donor organisations and implementing agencies to improve our social impact in our surrounding communities
- identifying specific business development initiatives to consolidate the Northern Cape region
- enhancing the use of the Passport 360 system to reduce turnaround time for the certificate of fitness-to-work for contractors and employees in order to improve productivity

### EMERGING RISKS

The mining industry is continuously confronted with various variable factors which introduce new risks or change the nature of existing risks. The following are emerging risks that Kumba has identified:

| | |
|---|---|
| **DIGITAL DISRUPTION** | Due to the onset of new mining technology and new ways of work, which will set the course for the mines of the future and improve competitiveness. Failure to keep up with this disruption has potential to diminish long-term sustainability of the Company. |
| **SECURITY OF ENERGY SUPPLY** | With difficulties experienced by Eskom, consistent supply of electricity to critical equipment becomes critical. Sustained outage of power will have an impact on production. |
| **SHIPPING COST INCREASES FROM 2020** | Due to International Maritime Organisation (IMO) setting a global limit for sulphur in fuel oil used on board ships of 0.50% m/m (mass by mass) compared to current 3.5% m/m sulphur content this will impact freight costs across all commodities. The reduction in sulphur content will result in reduction of sulphur oxide emissions, yielding major health and environmental benefits. |

### RESIDUAL RISK RATINGS

Consequence type

| Likelihood | Insignificant | Minor | Moderate | High | Major |
|---|---|---|---|---|---|
| Almost certain | | | 8 7 6 | 1 | |
| Likely | | | | 5 4 3 2 | |
| Possible | | | | 10 9 | |
| Unlikely | | | | | |
| Rare | | | | | |

**RISK**

| | | | | | |
|---|---|---|---|---|---|
| 1 | Third-party infrastructure | ↑ | 6 | Cyber risk | ↑ |
| 2 | Commodity markets and exchange rate fluctuations | ↓ | 7 | Legislation and regulatory compliance | ↓ |
| 3 | Safety and health | ↓ | 8 | Managing change (transformation of the business) | ↑ |
| 4 | Stakeholder relations and social licence to operate | ↑ | 9 | SIOC empowerment status | ↑ |
| 5 | Socio-economic and current governance challenges | → | 10 | Resource depletion and securing our growth | ↓ |

Outlined in the heat map above is the residual rating for each material risk for Kumba. Residual risk is the remaining risk exposure after all identified mitigation measures have been applied. The external factors beyond management's control are key contributors to the current high residual risk ratings.

Due to the improvement in risk rating, the following risk is no longer included in the top 10 risks: labour relations.

# MATERIAL RISKS AND OPPORTUNITIES

CONTINUED

**Kumba has identified key risks that have a potential impact on our ability to mine safely and achieve our strategic imperatives. We have considered both internal and external risks and designed and implemented appropriate mitigation strategies depending on the severity of impact and likelihood of occurrence of the risks we face.**

## 1. THIRD-PARTY INFRASTRUCTURE

**INCREASE IN RISK (2017: 3)**

| ROOT CAUSE | IMPACT ON VALUE | MITIGATING ACTIONS | OUTLOOK |
|---|---|---|---|
| As many aspects of the logistics chain are out of Kumba's control, the associated risks require careful management and trusted business partnerships. We export our ore to customers through a single-channel rail and port owned and operated by Transnet. Production requires a stable rail and port infrastructure network that operates reliably at design capacities.<br><br>Incidents such as derailments affect business continuity. Ageing infrastructure require significant maintenance (mid-life refurbishment) to improve reliability and efficiency thus creating opportunity to maintain capacity. | • An adverse impact on logistical capabilities and failure to obtain supporting facilities may pose a business continuity risk<br>• Unavailability of key infrastructure may impact delivery of products to our customers and significantly impact revenue<br>• Increase in freight costs | • Ongoing engagement with Transnet in order to optimise the channel throughput. Joint Executive Steering Committee established<br>• Agreement with Transnet on access to alternative facilities, such as the Multi-Purpose-Terminal (MPT) and back of port solution creates access to capacity when required<br>• Improved operational flexibility at the operations to maximise Fe units/quality of the ore to take advantage of higher prices for premium ore<br>• Improved on-mine operating parameters: Optimised loading, reduced loading variability and improved turn-around times | Continued engagement with Transnet to explore opportunities to improve the stability of the network and increase efficiencies in order to achieve throughput. Infrastructure maintenance (mid-life refurbishment) to continue in 2019, which may result in a temporary reduction in capacity at the port. We are engaging with Transnet to quantify the impact and to work on alternatives to mitigate the impact of the shutdown/downtime. |

**STRATEGIC FOCUS AREAS**

**Unlock full infrastructure potential**

**KEY ENABLERS**

**Proactively engage with key stakeholders**

## 2. COMMODITY MARKETS AND EXCHANGE RATE FLUCTUATIONS

**DECREASE IN RISK (2017: 1)**

| ROOT CAUSE | IMPACT ON VALUE | MITIGATING ACTIONS | OUTLOOK |
|---|---|---|---|
| Commodity prices are determined primarily by global supply and demand. Demand is influenced by global economic growth, mainly in Europe and Asia (especially China). Increased supply from the major producers and the shift in the Chinese economy from infrastructure-led growth to consumer-led growth add downward pressure on current price levels with market speculation in the commodity financial markets adding to the volatility in prices.<br><br>Increased environmental restrictions in China continue to curtail capacity of sinter plants shifting the demand toward direct charge inputs products such as pellets and lump ore, which results in favourable lump premiums.<br><br>Exchange rates remain volatile reflecting various macro-economic factors. | • A decline in iron ore prices adversely impacts revenues, margins, cash position and credit rating<br>• Revenue is in US Dollars; while some capital and other expenditure are incurred in US Dollar, most of the costs are denominated in Rand. A fluctuating currency can negatively impact our revenue and cash position | • Key iron ore market indicators and trends are constantly monitored, providing real-time and robust market insights to support agile decision-making and action from production to market. This ensures optimal price realisation for our product<br>• Employ price-risk management mechanisms to mitigate exposure and impact of price volatility<br>• Improved agility in our operational parameters to maximise the Fe units of product sold to customers to take advantage of higher index prices for high-grade products<br>• Continuous focus on cost stewardship and production efficiency improvements to protect margins and improve cash flow<br>• Policy is not to hedge currency risk<br>• A natural hedge is achieved through our foreign sales that are denominated in US Dollar | Market fundamentals for iron ore remain uncertain. Although current iron ore prices remain within a reasonable range, the shift in Chinese market drivers and additional supply from low-cost producers creates further uncertainty on the sustainability of current price levels.<br><br>Continue to maximise our product flexibility to take full advantage of the price premia differential. |

**STRATEGIC FOCUS AREAS**

Compete through **premium products**

Operate mines at **lower unit cost**

**Unlock full infrastructure potential**

**KEY ENABLERS**

Reinforce **product quality and consistency**

# MATERIAL RISKS AND OPPORTUNITIES

CONTINUED

## 3. SAFETY AND HEALTH

**DECREASE IN RISK (2017:2)**

| ROOT CAUSE | IMPACT ON VALUE | MITIGATING ACTIONS | OUTLOOK |
|---|---|---|---|
| There are inherent safety and health risks associated with mining activities across the value chain. The continuously changing operating environment and conditions heighten the safety risk.<br><br>Key priority unwanted events (PUEs) with the potential to cause harm to employees and contractors include: transportation risk; release of uncontrollable energy (electricity and other forms of energy); moving machinery interacting with humans; working at heights; and uncontrolled ignition of combustible material such as explosives. | • Apart from physical harm to employees and contractors, failure to maintain high safety levels may impact negatively on employee morale, the achievement of production targets and our licence to operate | Various initiatives have been implemented as part of our commitment to zero harm:<br>• implementing safety improvement plans and the elimination of fatalities framework<br>• focusing on priority unwanted events and critical controls<br>• Vehicle separation through design and construction of roads for light vehicles on the mine<br>• preventing repeat incidents through effective learning from incidents<br>• Driving disciplined and consistent execution of the basics and compliance with safety standards | A continued focus on reinforcing safety practices that eliminate harm and fatalities. Harness a culture of heartfelt leadership to influence and entrench the right safety culture. |

**KEY ENABLERS**

- Provide leadership through **responsible citizenship**
- **Leadership and culture**
- **Eliminate fatal incidents through a culture of zero harm**

## 4. STAKEHOLDER RELATIONS AND SOCIAL LICENCE TO OPERATE

**INCREASE IN RISK (2017: 6)**

| ROOT CAUSE | IMPACT ON VALUE | MITIGATING ACTIONS | OUTLOOK |
|---|---|---|---|
| There are growing expectations within communities and government for mining companies to deliver greater societal value; this is fuelled in part by community activism and slow levels of local government service delivery that have resulted in greater reliance on mining companies. Communities in areas adjacent to our operations continuously increase their demands for procurement opportunities. We continue to engage with the Dingleton community with a view to completing the successful relocation of the remaining residents to Siyathemba. | • A failure to manage stakeholder relationships, in particular unions, local communities, state-owned entities (SOEs), government, and non-governmental organisations, may result in disruption of operations, misalignment in expectations and adverse impact on our reputation and social licence to operate | • Identify and prioritise stakeholder issues and implement a comprehensive, Exco-approved stakeholder engagement strategy<br>• Continue with existing local economic development programmes to empower local suppliers and seek further local procurement opportunities for local suppliers<br>• Ongoing engagements with the remaining Dingleton households to ensure a successful relocation and implement post-resettlement sustainability initiatives | Continuously assess our stakeholders and update the stakeholder engagement strategy. We continue to monitor the external environment and are implementing change management processes to ensure that the Company remains resilient and continues to generate sustainable value for all stakeholders. |

**KEY ENABLERS**

- Provide leadership through **responsible citizenship**
- **Proactively engage with key stakeholders**

## 5. SOCIO-ECONOMIC AND CURRENT GOVERNANCE CHALLENGES

**NO CHANGE IN RISK (2017: 5)**

| ROOT CAUSE | IMPACT ON VALUE | MITIGATING ACTIONS | OUTLOOK |
|---|---|---|---|
| Low levels of economic growth in South Africa exacerbate the current challenges of poverty, inequality and unemployment that are prevalent in communities where Kumba operates.<br><br>Poor socio-economic conditions in our host communities increase expectations for employment and other social and economic benefits.<br><br>With impending general elections in May 2019, there are expectations of electioneering with political parties influencing local communities.<br><br>Governance and political challenges could impact our key stakeholders on whom we depend. | • Increased reliance and growing expectations on mining companies by government and communities<br>• Community activism and slow levels of local service delivery may cause disruptions at operations<br>• Increased cost of living on our host communities and cost of doing business<br>• Negative impact on investor confidence in South Africa and higher cost of doing business<br>• Instability within municipalities in our host communities | • Develop a shared vision and shared value journey with communities, youth, municipality, provincial government, NGOs, religious organisations, peer mining companies and local business<br>• Localised preferential procurement targets have been set<br>• Implementation of municipal capacity building initiatives<br>• Workforce recruitment targeted at local communities | External socio-economic environment will be impacted by the election process and is expected to settle post elections.<br><br>Continue implementation of supplier development initiatives with increased target of R2 billion.<br><br>**KEY ENABLERS**<br><br>Provide leadership through **responsible citizenship**<br><br>**Proactively engage with key stakeholders** |

## 6. CYBER RISK

**INCREASE IN RISK (2017: 8)**

| ROOT CAUSE | IMPACT ON VALUE | MITIGATING ACTIONS | OUTLOOK |
|---|---|---|---|
| Cyber attacks have become increasingly frequent and sophisticated throughout the world; success rates are high for criminals and returns are attractive.<br><br>With increased use of technology and integration of operating technology platforms, the exposure for cyber attacks exists. | • Cyber attacks can lead to financial loss, access to commercially sensitive information, intellectual property or disruption to operations<br>• Safety risk as a result of loss of control of operating systems due to cyber attacks | • Ongoing security campaigns with regular communications to raise awareness of information security threats<br>• Information management framework and policies in place to guide user behaviour and raise security awareness<br>• Proactive security monitoring with improved detection capabilities to identify and respond to security threats<br>• Dedicated security operations centre focused on identification of infected machines and anomalous network traffic<br>• Investment in technology to test and continuously improve our cyber security | Cyber crime is an ever-evolving and increasingly sophisticated threat requiring increased monitoring and investment in security capability.<br><br>**STRATEGIC FOCUS AREAS**<br><br>**Use technology** to extract maximum value |

# MATERIAL RISKS AND OPPORTUNITIES

CONTINUED

## 7. LEGISLATION AND REGULATORY COMPLIANCE

**DECREASE IN RISK (2017: 4)**

| ROOT CAUSE | IMPACT ON VALUE | MITIGATING ACTIONS | OUTLOOK |
|---|---|---|---|
| There has been an increase in legislation covering the broad spectrum of activities across the business value chain, in particular on the nature of mining rights, transformation, and safety, health and environmental performance.<br><br>With the adoption of Mining Charter 2018 (MC 2018), the current mining rights are secured based on the once empowered always empowered principle. Any new acquisitions or new mining rights will require empowerment to align with MC 2018.<br><br>The National Council of Provinces (NCOP) has approved a constitutional review process to consider amendments to S25 of the constitution to allow the state to expropriate land in public interest without compensation. The uncertainty relating to the land situation will impact security of property rights. | • Changes in the regulatory environment could require changes to the way we mine, and/or increase production costs<br>• Failure to comply could result in the suspension of necessary authorisations, licences and rights. A lack of regulatory certainty impacts our ability to take long-term investment decisions. | • Monitor regulatory developments and ensure readiness to comply with new legislation<br>• Monitor and report on our compliance with all applicable legislation and legislative changes<br>• A gap analysis conducted to address any gaps arising from adoption of MC 2018<br>• Proactively engage government to explore progressive ideas and models to resolve the land question | Implementation of Minimum Permitting Requirements (MPR) to ensure integrated monitoring of all licences and conditions to ensure compliance. |

**KEY ENABLERS**

Provide leadership through **responsible citizenship**

**Proactively engage with key stakeholders**

## 8. MANAGING CHANGE (TRANSFORMATION OF THE BUSINESS)

**INCREASE IN RISK 2017:10**

| ROOT CAUSE | IMPACT ON VALUE | MITIGATING ACTIONS | OUTLOOK |
|---|---|---|---|
| Current operating environment is characterised by continuous change which requires the Company to have the agility to adapt while not compromising the long-term sustainable value and sustain current performance. | • Lack of agility in adapting to change may destroy value and hinder Kumba's competitiveness<br>• Not maintaining/improving current efficiencies<br>• Change in working environment and stretched targets which introduce safety risks for employees<br>• Change fatigue | • Multi-year programme looking to sustainably improve our margins<br>• Change management framework and guideline<br>• The Leadership and Culture work stream under the Tswelelopele programme with five pillars has been introduced to provide extensive support to our employees to help them through the Kumba transformation journey | Focus on embedding of Horizon 1 benefits and implementation of Horizon 2 initiatives related to the full potential programme, see page 5. |

**STRATEGIC FOCUS AREAS**

- Compete through **premium products**
- **Identifying and realising opportunities**
- Sustainably operate mines at **lower unit costs**
- **Unlock full infrastructure potential**
- **Use technology** to extract maximum value

**KEY ENABLERS**

- Reinforce **product quality and consistency**

# MATERIAL RISKS AND OPPORTUNITIES

CONTINUED

## 9. SIOC EMPOWERMENT STATUS

**DECREASE IN RISK (2017: 7)**

| ROOT CAUSE | IMPACT ON VALUE | MITIGATING ACTIONS | OUTLOOK |
|---|---|---|---|
| The lock-in period for shareholders (specifically Exxaro's shareholding as well as the Envision scheme) expired in November 2016. The change in shareholding at Exxaro has resulted in a reduction in black shareholders which has impacted SIOC's BEE structure. | • With the adoption of Mining Charter 2018 (MC 2018), the current mining rights are secured based on the once empowered always empowered principle<br>• Any new acquisitions or new mining rights will require empowerment to align with MC 2018 | • Monitor developments regarding the finalisation of the new MC 2018, to inform the position to be taken on Kumba's future BEE structure<br>• A review of other ESOP options to replace Envision is under way<br>• A gap analysis conducted to determine the impact of MC 2018<br>• Any new opportunities to be assessed based on empowerment requirements per MC 2018 | Continuous engagement and consultation with industry and regulator on empowerment principles envisaged in MC 2018.<br><br>Monitor industry development to review implementation of MC 2018 for new or recent transactions to determine how they will impact our future transactions. |

**KEY ENABLERS**

Provide leadership through **responsible citizenship**

**Proactively engage with key stakeholders**

**Leadership and culture**

## 10. RESOURCE DEPLETION AND SECURING OUR GROWTH

**DECREASE IN RISK**

| ROOT CAUSE | IMPACT ON VALUE | MITIGATING ACTIONS | OUTLOOK |
|---|---|---|---|
| Peak production is currently anticipated to taper off by 2031, and there are constraints in establishing a robust resource replacement. The prospecting right tenure landscape in the Northern Cape is highly fragmented and the ability to access prospective ground is challenging.<br><br>Challenges remain to develop new operations in sufficient quantities to maintain our current levels of production beyond the remaining lives of our mines or to grow our current levels of reserves. Increased productivity has reduced our life-of-mine by three years. | • Business sustainability at risk<br>• Declining asset/market value and employee value proposition<br>• Reduced future ability to acquire new footprint, due to the capital-intensive nature of iron ore operations | • Implement resource development plan to explore life-extension opportunities<br>• Ensure capital availability and prioritise growth portfolio<br>• An ore replacement strategy has been developed, and accelerated exploration has commenced in South Africa<br>• Low-grade opportunities under investigation to extend the life-of-mine for Kumba's operations<br>• Technology development under way to investigate the potential beneficiation of lower grade material | Continue with implementation of lower grade projects, UHDMS project moved from pre-feasibility feasibility. For more information on how Kumba is extending the life of current assets see page 47.<br><br>**STRATEGIC FOCUS AREAS**<br>**Extend life of current assets**<br>**Focus on the Northern Cape**<br>**Identifying and realising opportunities**<br>**Use technology** to extract maximum value |

# STRATEGIC FOCUS AREAS:
## PERFORMANCE AND PROSPECTS

Kumba's 2018 performance reflects important milestones in our Tswelelopele strategy of unlocking our full potential through margin enhancement and extending the life of our assets beyond 2035. With our focus on productivity and efficiency continuing to gain traction we achieved 65% of benchmark. For 2018 we delivered cost savings of approximately R1 billion, 25% above our original target. The robustness and flexibility of our approach to the challenges faced this year on the rail not only mitigated but also allowed us to maximise value as the market turned. Through our strategy we are maximising the value of our enhanced product portfolio.

### STRATEGIC FOCUS AREAS

It is clear that Kumba has significant value to unlock. While challenges are part of the uncertain environment that we operate in, the quality of our assets ensures that we are well positioned to deliver premium products to our diversified and growing customer base, with the right strategy and people to create sustainable shareholder value.

Sustainably operate mines at a **lower unit cost** to remain competitive through a lean support and core cost base and a step up in productivity

We will enhance our competitiveness by sustainably operating our mines at a lower unit cost, achieving efficiencies through a lean support structure and reduced core cost base, and by delivering a step-up in productivity. During the year we delivered material efficiency improvements in both equipment and people through our various cost discipline measures. These included: optimising maintenance schedules; improving contractor management and supplier spend; and ensuring greater fuel and tyre efficiency, including through our successful 'truck speed optimisation' initiative.

Our strong efficiency drive contributed to overall cost savings this year of R976 million, ahead of our target despite the average mining-cost inflation of 4.7% in 2018. Sishen's unit cost of R290/tonne was up on 2017 costs of R287/tonne. During the year Kumba capitalised an increased number of equipment spares as property, plant and equipment, for which the reconditioning costs met the criteria. Kolomela's unit cost of R249/tonne (2017: R237/tonne) was up 5%, off the back of higher waste volumes following an increase in the stripping ratio to 3.5. Total operating expenditure decreased marginally to R29.4 billion, mainly as a result of the increased cost of mining in a higher strip area, lower production volumes and higher non-controllable costs, such as diesel prices and freight costs.

Kumba achieved an average cash breakeven price of US$41/tonne (CFR China), which was US$1/tonne up on the average for 2017. This was primarily as a result of higher non-controllable costs (+US$2/tonne), offset by lower controllable costs (-US$1/tonne).

Compete through **premium products** and differentiated customer relationships

Due to the geographical and geological nature of our operations, we are not able to compete effectively with the large iron ore producers in terms of volume. We have thus chosen to compete by maximising our price premium and maintaining differentiated customer relationships through the provision of premium quality products. By understanding and responding to the specific technical needs of our different customers, we are able to offer niche products.

Kumba is fortunate and unique in that we are primarily a lump producer with a product of recognised exceptional chemical and metallurgical quality. The highest quality and most important iron ore for steel-making are haematite ($Fe_2O_3$) and magnetite ($Fe_3O_4$). Haematite is the more sought-after ore and the preferred raw material in efficient steel-making mills. It accounts for approximately 95% of South Africa's iron ore production. Our iron ore reserves are all of high-quality haematite allowing us to produce both high-quality lump and high-grade sinter fines for the domestic and export markets.

Further details on the quality of Kumba's iron ore, and the resulting price premium, are provided on page 49.

| | |
|---|---|
| **Implement the Operating Model** to ensure stable and capable processes leading to the delivery of business expectations | We have continued to place a strong emphasis on rolling out the Operating Model, a structured management system that provides a sequenced and repeatable set of work-steps guiding employees to achieve the intended purpose of their team's work in the most efficient manner. By promoting stability, reducing variation and providing clarity, the Operating Model is a critical element of our cost-cutting drive across the Company.<br><br>At Sishen the focus areas for 2018 included the stabilisation of work management processes in the mining and truck maintenance areas and implementation at the processing plant and drilling maintenance sections. In the mining areas, work management enable a fully integrated view of all activities in the pit and ensures greater adherence to the mining schedule. The most visible and immediate impact was the reduction of unscheduled work by up to 40% in some areas and with Sishen achieving 91% mine-to-plan compliance.<br><br>At Kolomela, the Operating Model led to improved work management practices in mining, mobile equipment maintenance and the processing plant. |
| **Extend life of current mines** through low-grade projects and business development activities | We are identifying and realising various opportunities to extend the life of Sishen by unlocking the significant low-grade potential in the area through ultra-high-density medium separation (UHDMS) production technologies. We are also exploring opportunities to realise the valuable potential for dense medium separation (DMS)/direct shipping ore (DSO) in the central and Kolomela areas. The opportunities at both Sishen and Kolomela are being evaluated by deepening our understanding of the regional geology through exploration programmes around these operations.<br><br>Specific opportunities for extending the life of current mines include:<br>• using our UHDMS technology to treat the substantial volumes of low-grade material available at Sishen to produce more ore and less waste, UHDMS feasibility study 68% completed<br>• optimising existing resources and utilising on-lease resources to grow Kolomela to produce above 13 Mtpa<br>• extending Kolomela's reserve life by accessing adjacent resources around the operation, mining right amended to include the Heuningkranz prospecting right. |
| **Focus on the Northern Cape** as the region contains the most attractive ore bodies for both current operations and targeted brown fields exploration | By using leading-edge exploration technologies, we have further improved our understanding of the full potential of the Northern Cape region. Over the longer term, we believe that current production levels could be sustained through further development in the Northern Cape, unlocking the region's full potential by extending our Kolomela activities and realising opportunities for joint ventures and acquisitions of appropriate rights beyond Kumba's current footprint. The full potential of Sishen is dependent on how successful we are in identifying and developing methodologies to beneficiate low-grade haematitic iron ore material.<br><br>Further details on the 2018 performance of Sishen and Kolomela is provided on pages 66 and 67. |

# STRATEGIC FOCUS AREAS:
## PERFORMANCE AND PROSPECTS CONTINUED

**Use technology** to extract maximum value from ore focusing on step-change opportunities

Effective use of technology presents potential game-changing opportunities for Kumba. Through our technology strategy, we are looking to accelerate the adoption of appropriate technologies at our operations to improve safety to achieve our zero harm target, drive down costs by improving productivity and efficiencies, and maximise current and future resource utilisation through low-grade beneficiation technology.

Recent initiatives at Sishen and Kolomela include:
- rolling out an auto-braking system on Sishen and Kolomela haul trucks
- activating Pay Load Management (PLM) in Sishen and Kolomela units
- implementing advanced process control at both Sishen and Kolomela
- launching the Kumba Mobi App to record safety incidents
- introducing a Mining Information System (MIS) at Kolomela
- deploying mobile technology (iPad 4 Mini) to the Kolomela SHE team

**Unlock full infrastructure potential** to support maximum in export volumes over the medium term

Kumba's distance from the Saldanha port results in higher rail costs compared to our competitors. Kumba is contractually entitled to 44.7 Mtpa. We believe that unlocking the full potential of our third-party infrastructure can be beneficial to all parties and with continuous improvement in both rail and port can deliver substantial value for all stakeholders involved.

Specific areas of focus over the medium term are back of port solutions and realising the full potential of the IOEC by collaborating in finding solutions with Transnet and other stakeholders to increase rail and port capacity.

**Identifying and realising opportunities** beyond the existing asset base

Over the longer term, we will be identifying and pursuing attractive new growth opportunities that fit well within Kumba's strategic direction. These "close-to-core" opportunities form part of our longer-term time horizon and are anticipated to only deliver value after the next five years.

## KEY ENABLERS

**Underpinning our strategic ambition is a sustained focus on our key strategic enablers: aligning our marketing and operational activities; reinforcing our reputation for product quality and consistency; engaging proactively with stakeholders; providing leadership through responsible citizenship; and providing support to our employees.**

**Align marketing and operational activities** to ensure that product produced efficiently matches customer needs

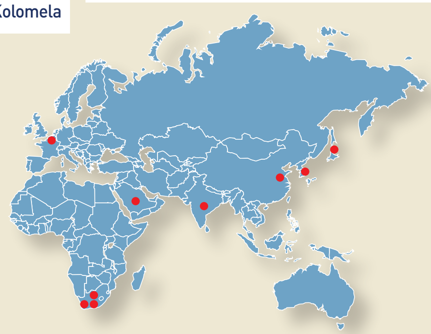
Having a thorough appreciation of our clients' expectations enables us to deliver high-quality products and strengthen our relationships with clients, thereby consolidating our position in an increasingly competitive market. We regularly undertake customer segmentation studies to identify which customers value particular physical and/or chemical properties in our products. We use this information, together with mine planning information, to tailor our product specifications to match customer demands.

Our approach to producing ore for the export market at Sishen and Kolomela is outlined in the following diagram:

**PRODUCING ORE FOR THE EXPORT MARKET**

| SISHEN MINE | | KOLOMELA MINE | |
|---|---|---|---|
| **Process A** | **Process B** | **Process C** | **Process D** |
| DMS plant uses a sink-float process to separate ore from waste | Jig plant uses pulsating technology to remove waste material from the ore | UHDMS uses specialised FeSi to separate ore from low-grade discards or ore at both Sishen and Kolomela | Dry crushing and screening employed to produce lump and fine direct shipping ore |

Ore from Sishen and Kolomela mines is railed to Saldanha Bay to be combined into Kumba's high-grade export products that have a high iron content, superior physical properties, low moisture, and low undersize



In addition we seek to create and supply a product of consistent and reliable quality (ISO 9001, 14001 and 17025 laboratory certification).

This year our total export sales of 40.0 Mt were 1.6 Mt lower than in 2017. Domestic sales of 3.3 Mt to ArcelorMittal SA were in line with 2017.

Reinforce **product quality and consistency**

As we cannot compete with the large iron ore producers in terms of volume and proximity to China, we recognise the need to reinforce our reputation for product quality as a critical source of competitive differentiation. Since 2012 we have been driving a strong focus on consistently delivering a high-quality product and on increasing the lump ratio; both of these features attract premia against the standard product sold in the market.

Our high average Fe content of 64.5% Fe, and our lump:fine ratio of 68:32, enables us to sell our product in an over-supplied iron ore market and to attract Fe and market premia relative to standard products. We have continued to perform well this year in maintaining the quality and consistency of our products, further diversifying the customer portfolio with increasing sales in regions utilising direct-charge materials and increasing the share of premium products to 30% of total sales.

China represented 57% (2017: 63%) of our export sales portfolio with sales to Europe/MENA increasing to 21% (2017: 18%) and Japan and Korea to 19% (17%).

Contractual sales comprised 77% (2017: 70%) of export sales and 66% (2017: 69%) of sales were on a CFR basis with the remainder sold free on board.

# STRATEGIC FOCUS AREAS:

## PERFORMANCE AND PROSPECTS CONTINUED

**Proactively engage with key stakeholders** to reinforce our partnership approach

Engaging proactively with our stakeholders is essential to developing trusted relationships, a critical foundation for delivering on our strategic focus areas.

During 2018, we undertook various different initiatives across the organisation aimed at further increasing the level of trust between Kumba and our key stakeholders. An overview of some of the key stakeholder initiatives during the year follows below:

- Thabazimbi transferred to ArcelorMittal SA on 1 November 2018
- Mining Charter 2018 concluded, Kumba is reviewing and fully assessing the implications for sustainability of the mining industry
- Dingleton – significant progress made, 98% of households relocated to Siyathemba, negotiations with last remaining 10 households ongoing, mining activities ongoing
- Karolo ESOP, with 95% acceptance rate
- Improved relationship with Transnet – working closely together to deliver performance

Provide leadership through **responsible citizenship** displaying care for **safety, health and the environment**

We believe that providing leadership through responsible corporate citizenship delivers material competitive benefits: it protects the safety, health and productivity of our employees; assists us in attracting and retaining talent; reduces potential legal liabilities; delivers valuable resource efficiencies and protects the environmental resources we rely on; and is essential in maintaining our social licence to operate.

The following provide a brief review of our performance on our most material safety, health and environmental issues, as well as of our performance in social investment activities:

- Remaining fatality free since May 2016
- 67% reduction in HPIs from 21 in 2017 to 7 in 2018
- TRCFR of 1.80 against a target of 2.75 (2017: 3.23)
- Third consecutive year of no new cases of noise-induced hearing loss (NIHL)
- 91% of all employees tested in our HIV counselling and testing campaign (target: 90%)
- Third consecutive year with level 3 to 5 environmental incidents
- Significant progress in rehabilitation with 130 ha reshaped (2017: 75 ha)
- R11.8 billion procurement for BEE businesses with R1.4 billion spent with host community suppliers
- R123.5 million direct social investment (2017: R106.7 million)

A more detailed review of our sustainability performance is provided in our Sustainability Report, available at: https://www.angloamericankumba.com/investors/annual-reporting

**Leadership and culture,** embedding a culture that fosters safety, diversity, innovation and organisational effectiveness

Following successful completion of the extensive organisational restructuring process, undertaken from 2016 to 2017, we have made valuable progress in developing and embedding an organisational culture that fosters safety, diversity, innovation and performance, underpinned by our commitment to employee engagement and support.

We took decisive steps this year towards achieving our Tswelelopele objectives, by beginning to implement a leadership and culture 'architecture' comprising the following five pillars and interventions:

- **Employee engagement:** We have been rolling out and embedding the Kumba Culture and Leadership Code across the Company, socialising our desired 'way of being' through innovative branding and creative multichannel communications mechanisms, including a story-telling approach that illustrates the desired behaviours and codes in a practical and understandable way for teams.
- **Leadership assessment:** In July 2018, we implemented a 360-degree leadership survey, with approximately 200 leaders at a supervisory level, participating; the results provided a baseline measure of how our leaders are 'showing up' on the Leadership Code and have informed actions to address identified weaknesses.
- **Leadership capability building:** In August 2018, we launched the Kumba Expeditions Leadership Programme comprised of Kumba Pioneers (a six-day programme for executives and senior management) and Kumba Navigators (a three-day programme for middle management). Designed in partnership with Duke Corporate Education, the programme involves 'immersive' learning experiences to equip leaders with capabilities to deliver on our Leadership Code. Approximately 250 leaders are participating over a two-year period.
- **Team development:** In April 2018, we introduced a revitalised team development process across Kumba to build team cohesiveness and effectiveness. Delivered by a leading service provider, the programme focuses on how we 'live' our cultural aspirations. Sixteen teams across Kumba are currently engaged and we are starting to see shifts in team dynamics through this process.
- **Focus on diversity:** In May 2018, we started implementing the Diversity Institute's Winning Work Behaviours, a powerful workshop that utilises a narrative methodology to convey concepts and promote our desired inclusive culture. By the end of 2018, approximately 260 Kumba employees across all levels had participated in this programme.

In July 2018, we introduced our new broad-based employee share ownership scheme, Karolo, for permanent employees below middle and senior management level. We have granted share awards and provided training on the new scheme to all participants. Industrial relations continued to be stable amid slight changes in union representations at the mines. In 2018, 70% of the total workforce was represented by one of the three recognised unions: the National Union of Mineworkers (NUM) remains the dominant union with 59% of the total bargaining unit population (2017: 59%); AMCU has 20% membership (2017: 20%); and Solidarity has 16% (2017: 17%).

**Organisational effectiveness:** in Q4 2018 we started with the work around the organisational effectiveness of our support services throughout the business. The work is continuing in 2019 and will be completed by the end of the first half of the year.

Further information on our activities in supporting employees – including details on promoting diversity, managing talent, engaging employees and investing in skills development – is provided in our Sustainability Report.

## 2019 OUTLOOK

Following the generally strong performance in 2018, achieved despite the challenging operating context, our focus for 2019 onwards will be to:

**Under Horizon 1**

- increase the sales from premium products to 40% of total sales
- continue to improve our operating equipment efficiency, operating beyond benchmark to P101 by 2022
- Targeting a cumulative R2.6 billion of cost saving by 2022

**Under Horizon 2**

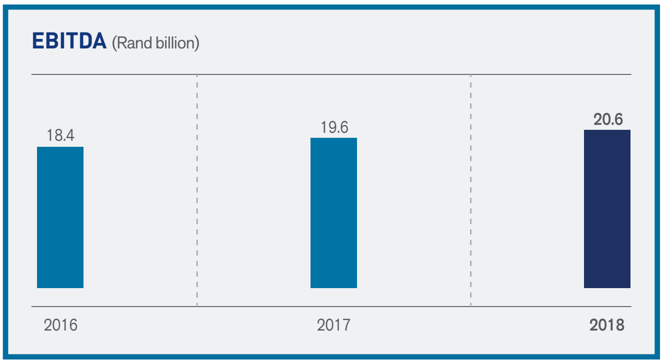
- complete the feasibility study for the DMS plant conversion to UHDMS for approval in Q4 2019
- Kolomela mining right amended to include Heuningkranz, potential to extend LoM of Kolomela beyond 14 years

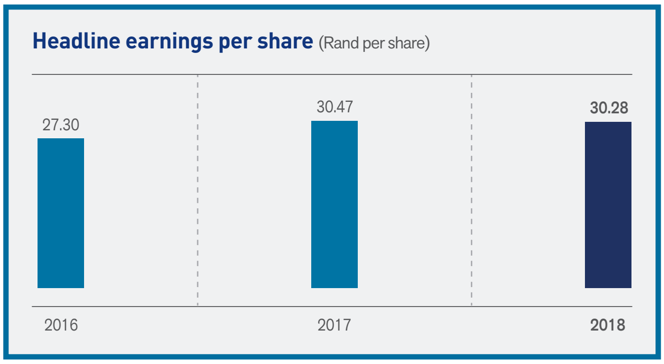
# CHIEF FINANCIAL OFFICER'S REVIEW

**Bothwell Mazarura**
Chief Financial Officer

## 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



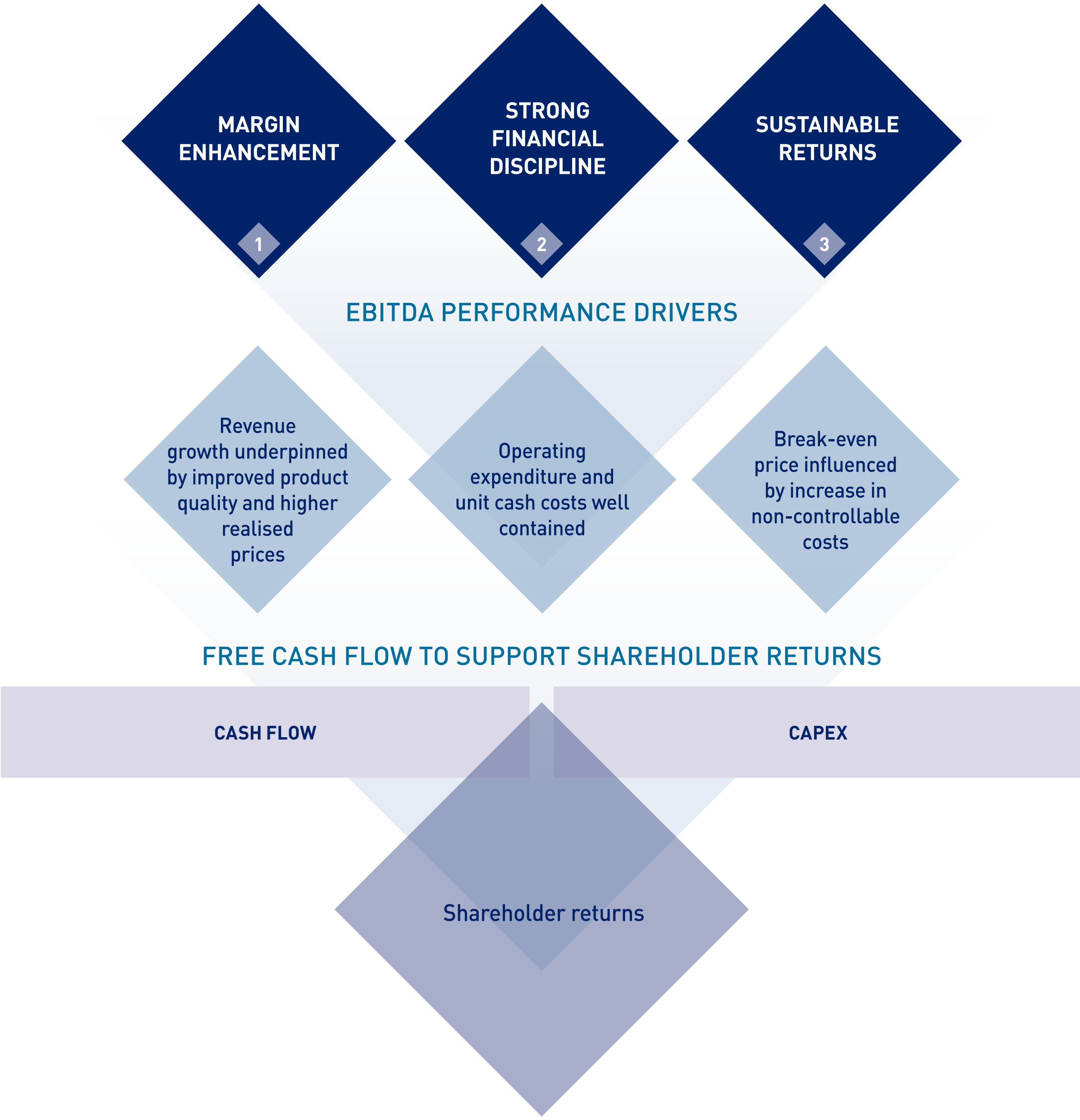




## MAXIMISING VALUE FROM OUR PREMIUM PRODUCT PORTFOLIO

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:




Our performance

# CHIEF FINANCIAL OFFICER'S REVIEW

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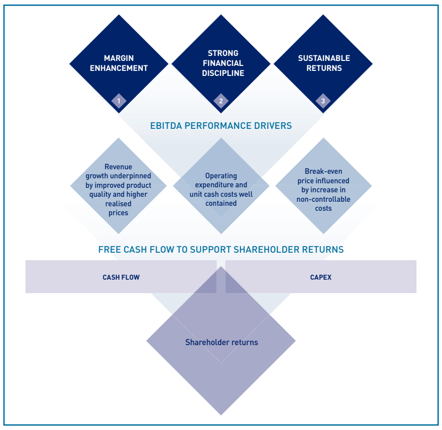



## 1 FOCUS ON MARGIN ENHANCEMENT

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%.

## 2 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.

## 3 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 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 this report.

The results booklet and AFS on our website www.angloamericankumba.com/investors/annual-reporting.aspx.

### EBITDA PERFORMANCE DRIVERS

**Revenue – market premia partially offset lower sales volumes**

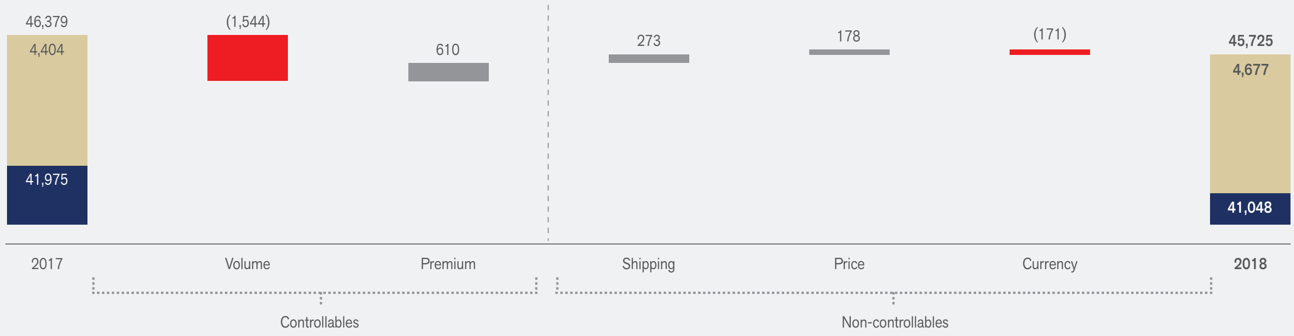
Total revenue decreased by 1% to R45.7 billion compared to R46.4 billion for 2017, mainly as a result of total sales reducing by 1.6 Mt and the marginal strengthening of the average Rand/US$ exchange rate to R13.24/US$1 (2017: R13.30/US$1). This was offset by a 1% increase in the average realised iron 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 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)




Our performance

# CHIEF FINANCIAL OFFICER'S REVIEW

## CONTINUED

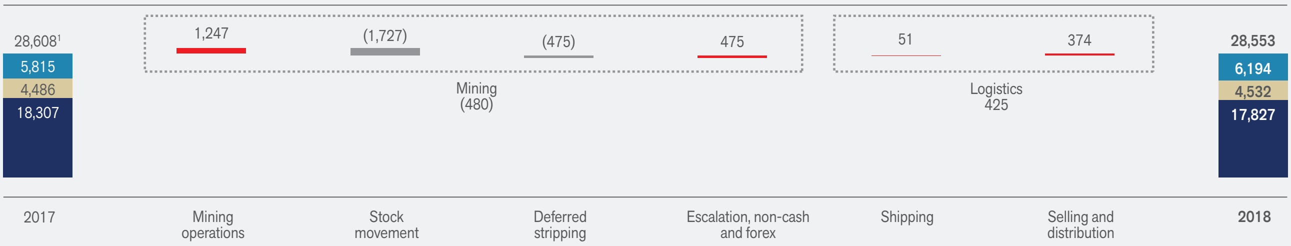
### Operating expenditure reduced through cost savings and lower volumes

Operating expenses decreased marginally to R29.4 billion, compared to R29.9 billion (excluding the 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.

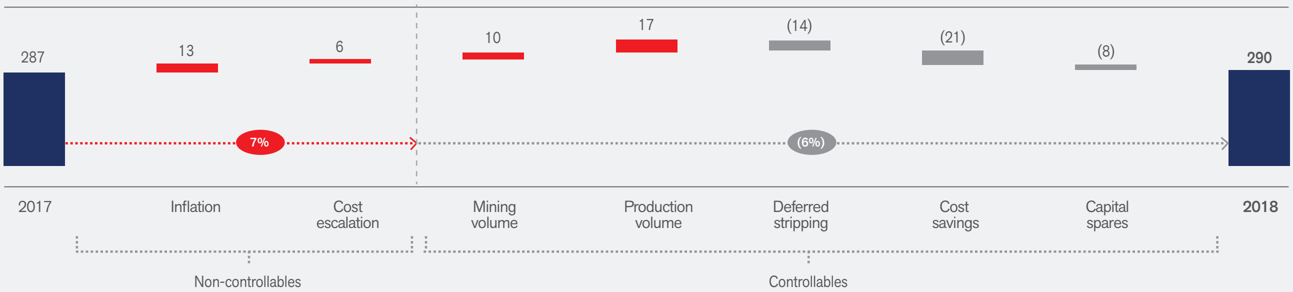
**Operating expenditure** (Rand million)



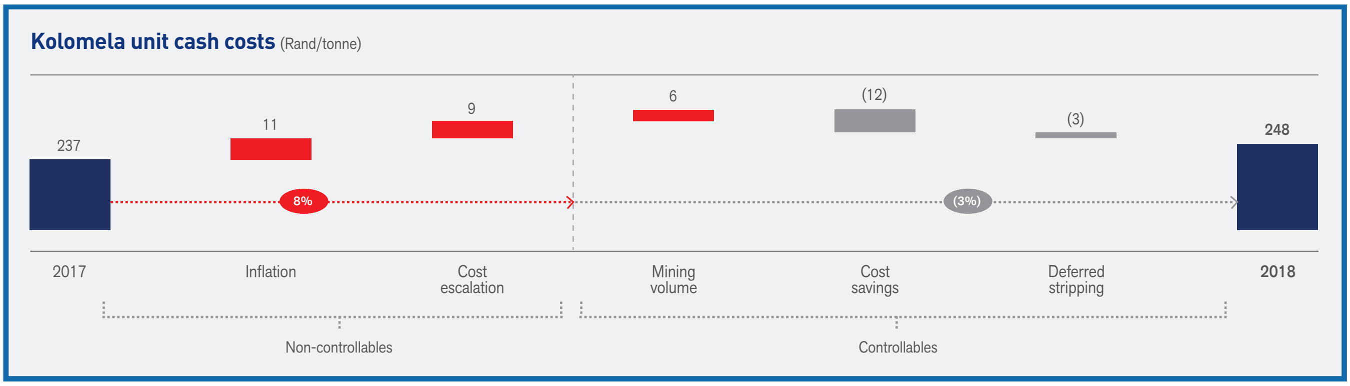

[1] Excluding the mineral royalty and impairment reversal in 2017

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.

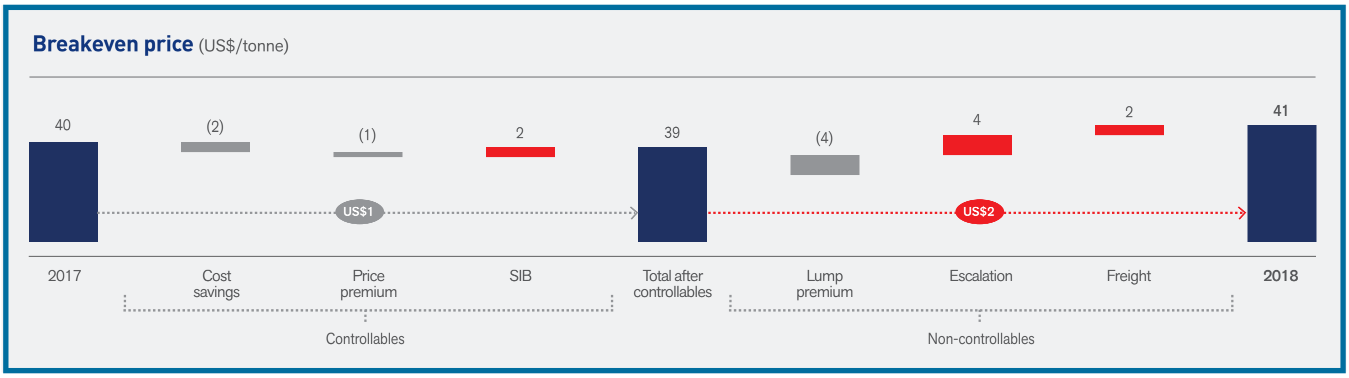
**Sishen unit cash costs** (Rand/tonne)



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.

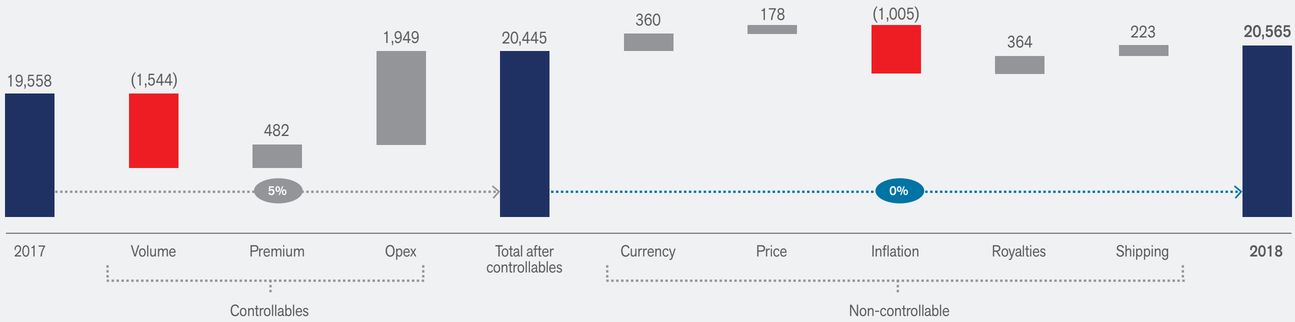
Controllable costs reduced by US$1/tonne as cost savings and price premium achieved due to our enhanced product portfolio offset higher on-mine SIB capex. Non-controllable costs rose by US$2/tonne with the increase in cost escalation driven by an increase in the diesel price of 18% and freight rates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

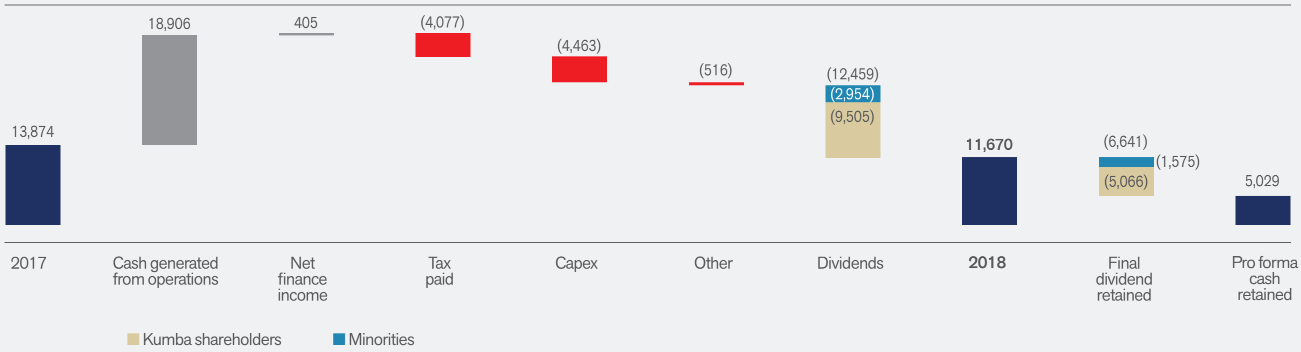
Kumba's EBITDA margin increased by 3 percentage points to 45% (2017: 42%), as Kumba continued to deliver on its margin enhancement strategy and increased operational efficiency. The group's mining EBITDA margin improved to 50% (2017: 47%), excluding the net freight profit incurred on shipping operations. 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.

**EBITDA** (Rand million)




## FREE CASH FLOW CONTINUED TO SUPPORT SHAREHOLDER RETURNS
**Strong balance sheet supports sustained returns**

**Cash generation** (Rand million)

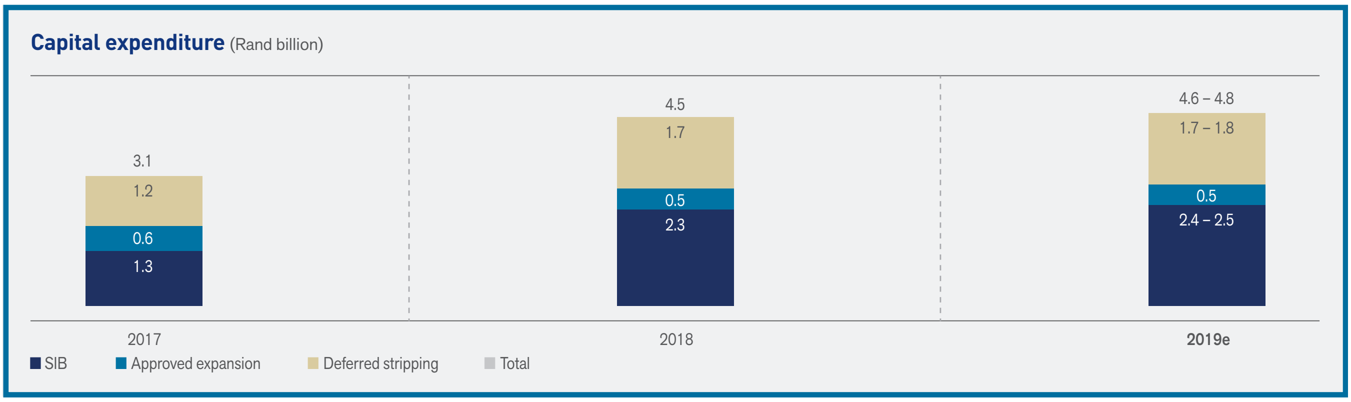



Kumba ended the year with a net cash position of R11.7 billion (2017: R13.9 billion), after cash flow from operations, tax paid, capex and dividends. Cash flow from operations decreased by 16% to R18.9 billion (2017: R22.4 billion), due to higher working capital requirements of R1.8 billion which offset 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 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:

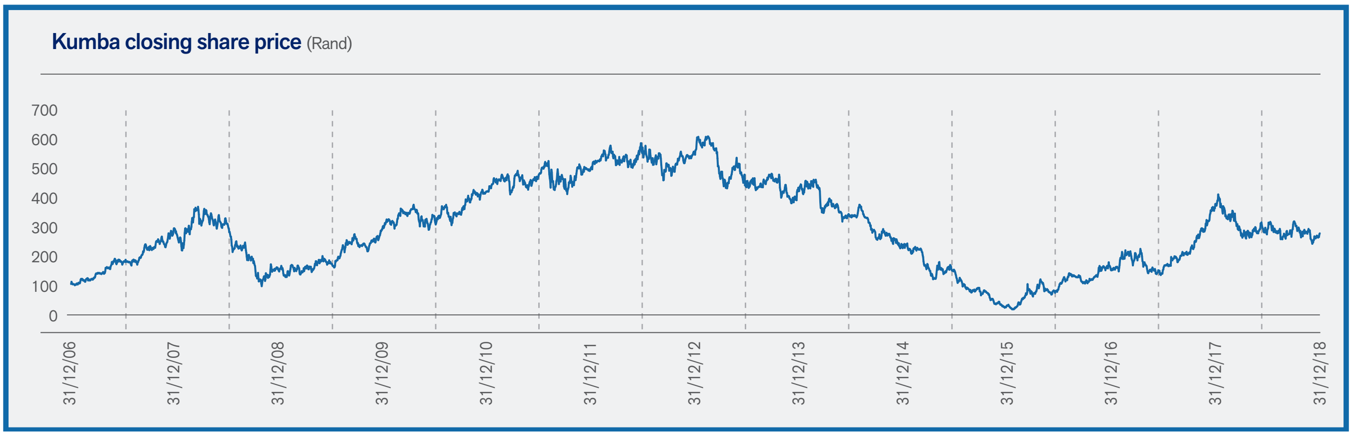
- R2.3 billion from stay-in-business (SIB) activities
- R0.5 billion of expansion capex, largely related to the completion and commissioning of Sishen's second modular plant (R0.2 billion) and the Dingleton relocation project (R0.2 billion)
- R1.7 billion in deferred stripping due to the increase in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



# 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.)

### 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.

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.

- **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

# SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## as at

| **Rand million** | **31 December 2018** | 31 December 2017 | |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | **37,723** | 36,833 | 1 |
| Biological assets | **3** | 3 | |
| Investments held by environmental trust | **621** | 627 | 2 |
| Long-term prepayments and other receivables | **216** | 211 | |
| Deferred tax assets | **–** | 72 | |
| Inventories | **2,410** | 2,841 | |
| **Non-current assets** | **40,973** | 40,587 | |
| Inventories | **6,236** | 4,061 | 5 |
| Trade and other receivables | **4,157** | 2,709 | 5 |
| Contract assets | **9** | – | |
| Current tax assets | **6** | – | |
| Cash and cash equivalents | **11,670** | 13,874 | 4 |
| **Current assets** | **22,078** | 20,644 | |
| **Assets of disposal group classified as held for sale** | **–** | 1,235 | 3 |
| **Total assets** | **63,051** | 62,466 | |
| **EQUITY** | | | |
| Shareholders' equity | **35,260** | 34,769 | |
| Non-controlling interest | **10,927** | 10,777 | |
| **Total equity** | **46,187** | 45,546 | |
| **LIABILITIES** | | | |
| Provisions | **2,239** | 1,860 | 7 |
| Deferred tax liabilities | **8,805** | 8,860 | |
| **Non-current liabilities** | **11,044** | 10,720 | |
| Provisions | **72** | 147 | 6 |
| Trade and other payables | **5,460** | 4,945 | 5 |
| Contract liabilities | **288** | – | |
| Current tax liabilities | **–** | 59 | |
| **Current liabilities** | **5,820** | 5,151 | |
| **Liabilities of disposal group classified as held for sale** | **–** | 1,049 | 3 |
| **Total liabilities** | **16,864** | 16,920 | |
| **Total equity and liabilities** | **63,051** | 62,466 | |

### 1. FINANCIAL CAPITAL

During 2018 an increased number of equipment spares were capitalised as property, plant and equipment, for which the reconditioning costs incurred met the recognition criteria.

### 2. NATURAL RESOURCES

These investments may only be utilised for the purposes of settling decommissioning and rehabilitation obligations.

### 3. FINANCIAL CAPITAL

**Discontinued operation and disposal group held for sale**

As announced in 2017, SIOC and ArcelorMittal SA had entered into an agreement to transfer Thabazimbi 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, 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 were transferred at a nominal purchase consideration from SIOC to Thabazimbi Iron Ore Mine (Pty) Ltd (a wholly owned subsidiary of ArcelorMittal SA, previously ArcelorMittal South Africa Operations (Pty) Ltd).

The transaction resulted in a net non-cash loss of R18 million.

### 4. FINANCIAL CAPITAL

Kumba ended 2018 with net cash of R11.7 billion.

Total debt facilities at year-end amounted to R20.3 billion, all of which was undrawn at 31 December 2018.

The group's committed debt facilities of R12.0 billion (revolving facility) mature in 2020. The group also had undrawn uncommitted facilities of R8.3 billion at 31 December 2018.

Kumba was not in breach of any of its financial covenants during the year.

### 5. MANUFACTURED ASSETS

The group's working capital position remained healthy, ensuring sufficient reserve to cover short-term positions. Net working capital increased by R3.1 billion from 31 December 2017 to R4.9 billion. This increase is mainly due to a increase in inventory of R2.2 billion due to higher finished stock of 5.3 Mt at the end of 2018.

### 6. NATURAL RESOURCES

The total rehabilitation and decommissioning provision of the group was R2.2 billion at the end of 2018 (2017: R2.0 billion). The measurement of this provision is a key area where management's judgement is required. The closure provisions are updated at each balance sheet date for change in future cash flows and the discount rate. The LoM plan on which accounting estimates are based only included proved and probable ore reserves as disclosed in the ORMR.

### 7. NATURAL RESOURCES

The group has issued financial guarantees in favour of the DMR in respect of its environmental rehabilitation and decommissioning obligations to the value of 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 Thabazimbi 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. For more information refer to page 68 of AFS.

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.

# SUMMARISED CONSOLIDATED STATEMENT OF PROFIT AND LOSS
## for the year ended

| Rand million | 31 December 2018 | 31 December 2017 | |
|---|---|---|---|
| Revenue | **45,725** | 46,379 | 7 |
| Operating expenses | **(29,365)** | (24,989) | 8 |
| **Operating profit** | **16,360** | 21,390 | 9 |
| Finance income | **499** | 637 | |
| Finance costs | **(179)** | (339) | |
| Profit before taxation | **16,680** | 21,688 | |
| Taxation | **(4,026)** | (5,481) | 10 |
| **Profit for the year from continuing operations** | **12,654** | 16,207 | |
| **Discontinued operation** | | | |
| (Loss)/profit from discontinued operation | **(59)** | (74) | |
| **Profit for the year** | **12,595** | 16,133 | |
| **Attributable to:** | | | |
| Owners of Kumba | **9,615** | 12,335 | |
| Non-controlling interests | **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 | |

### 7. NATURAL RESOURCES

The group's total revenue decreased by 1%, mainly as a result of the 4% lower sales, offset by a 1% increase in the average realised iron ore export price to US$72/tonne (2017: US$71/tonne).

### 8. MANUFACTURED ASSETS

Operating expenditure (excluding royalties) of R28.6 billion remained in line with the prior year (excluding the reversal of the Sishen impairment), principally as a result of our cost saving initiatives.

Sishen's unit cash costs increased by 1% to R290/tonne (2017: R287/tonne). The increase reflects the effect of lower production volumes and higher mining costs, as waste volumes increased by 13% to 182.1 Mt, due to the higher stripping ratio of 4.7 (2017: 4.3), and higher diesel prices, which were partially offset by cost savings of R643 million.

Kolomela's unit costs increased 5% to R248/tonne (2017: R237/tonne), including cost savings of R163 million. Cost pressure related to higher mining volumes, 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 18% hike in fuel prices.

### 9. MANUFACTURED ASSETS AND NATURAL RESOURCES

Operating profit of R16.4 billion decreased by 1% (2017: R16.6 billion – excluding the reversal of the impairment), mainly due to 4% lower total sales volumes, 8% increase in mining volumes and inflationary pressure on input costs and higher distribution costs, offset by an 1% increase in average realised iron ore price to US$72/tonne and cost savings of R976 million from operating efficiency improvements and overhead cost reductions.

### 10. TAXATION

The group's effective tax rate decreased slightly to 24% (2017: 25%).



# SEGMENT ANALYSIS

| | Products[1] | | | Services | | | |
|---|---|---|---|---|---|---|---|
| **Rand million** | **Sishen** | **Kolomela** | **Thabazimbi** | **Logistics[2]** | **Shipping operations** | **Other** | **Total[3]** |
| **For the year ended 31 December 2018** | | | | | | | |
| 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** |
| Depreciation | **3,096** | **1,136** | **–** | **10** | **–** | **27** | **4,269** |
| Staff costs | **2,855** | **955** | **–** | **40** | **–** | **776** | **4,626** |
| **For the year ended 31 December 2017** | | | | | | | |
| Revenue from external customers | 30,252 | 11,723 | – | – | 4,404 | – | 46,379 |
| EBITDA | 18,842 | 7,481 | (56) | (5,806) | (83) | (820) | 19,558 |
| Depreciation | 1,934 | 1,001 | 13 | 9 | – | 70 | 3,027 |
| Staff costs | 2,523 | 849 | – | 41 | – | 771 | 4,184 |
| Impairment reversal | (4,789) | – | – | – | – | – | (4,789) |

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

# SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended

| Rand million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Total equity at the beginning of the year** | **45,546** | 36,536 |
| **Changes in share capital and premium** | | |
| Treasury shares issued to employees under employee share incentive schemes | **73** | 121 |
| Purchase of treasury shares[1] | **(112)** | (61) |
| **Changes in reserves** | | |
| Equity-settled share-based payment | **94** | 135 |
| Vesting of shares under employee share incentive schemes | **(73)** | (121) |
| Total comprehensive income for the year | **10,014** | 11,989 |
| Dividends paid | **(9,505)** | (5,144) |
| **Changes in non-controlling interest** | | |
| Total comprehensive income for the year | **3,104** | 3,690 |
| Dividends paid | **(2,954)** | (1,599) |
| **Total equity at the end of the year** | **46,187** | 45,546 |
| Comprising | | |
| Share capital and premium (net of treasury shares) | **(93)** | (54) |
| Equity-settled share-based payment reserve | **203** | 186 |
| Foreign currency translation reserve | **1,312** | 916 |
| Retained earnings | **33,838** | 33,721 |
| **Shareholders' equity** | **35,260** | 34,769 |
| Non-controlling interest | **10,927** | 10,777 |
| **Total equity** | **46,187** | 45,546 |
| **Dividend (Rand per share)** | | |
| Interim | **14.51** | 15.97 |
| Final[2] | **–** | 15.00 |

11

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

[2] The final dividend was declared after 31 December 2018 and has not been recognised as a liability in these summarised financial statements. It will be recognised in shareholders' equity in 2019.

**11. FINANCIAL CAPITAL**

Total shares in issue were 322,085,974 and treasury shares held were 2,565,164 (2017: 2,626,977). All treasury shares are held as conditional awards under the Kumba bonus share plan.

# SUMMARISED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
for the year ended

| Rand million | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Profit for the year** | **12,595** | 16,133 |
| **Other comprehensive income for the year** | **523** | (454) |
| Exchange differences on translation of foreign operations[1] | **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 items subsequently reclassified to profit or loss.

These consolidated financial statements are an extract of the summarised consolidated financial statements, which were published on 19 February 2019.

The consolidated financial statements from which this extract was derived have been prepared, under the supervision of BA Mazarura CA(SA), Chief Financial Officer.

The summarised consolidated financial statements for the year ended 31 December 2018 are derived from the audited financial statements which Deloitte & Touche expressed an unmodified opinion thereon. A copy of the auditor's report together with the consolidated financial statements is available for inspection at he Company's registered office.

# SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS
## for the year ended

| Rand million | **31 December 2018** | 31 December 2017 | |
|---|---|---|---|
| Cash generated from operations | **18,906** | 22,432 | |
| Net finance income/(cost) | **405** | 461 | |
| Taxation paid | **(4,077)** | (5,883) | |
| **Cash flows from operating activities** | **15,234** | 17,010 | |
| Additions to property, plant and equipment | **(4,463)** | (3,074) | |
| Proceeds from the disposal of property, plant and equipment | **17** | 27 | |
| **Cash flows utilised in investing activities** | **(4,446)** | (3,047) | |
| Purchase of treasury shares | **(112)** | (61) | |
| Dividends paid to owners of Kumba | **(9,505)** | (5,144) | |
| Dividends paid to non-controlling shareholders | **(2,954)** | (1,599) | |
| Net interest-bearing borrowings repaid | **–** | (4,500) | |
| **Cash flows utilised in financing activities** | **(12,571)** | (11,304) | |
| **Net increase in cash and cash equivalents** | **(1,783)** | 2,659 | |
| Cash and cash equivalents at beginning of year | **13,874** | 10,665 | |
| Foreign currency exchange loss/(gain) on cash and cash equivalents | **(421)** | 550 | |
| **Cash and cash equivalents at end of year** | **11,670** | 13,874 | 12 |

### 12. FINANCIAL CAPITAL

The group's cash generated from operations decreased 16% to R18.9 billion compared to R22.4 billion in 2017. The cash was used to pay income tax of R4.1 billion (2017: R5.9 billion), mineral royalties of R983 million (2017: R1.2 billion). Dividends to shareholders totalled R12.5 billion (R9.5 billion to owners of Kumba and R3.0 billion to non-controlling shareholders) was paid out.

In 2018, R4.5 billion (2017: R3.1 billion) was spent on capital.

### 13. FINANCIAL CAPITAL

**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 is in the process of preparing an appeal against this outcome. 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.

# HEADLINE EARNINGS
## for the year ended

| Rand million | **31 December 2018** | 31 December 2017 |
|---|---|---|
| **Reconciliation of headline earnings** | | |
| Profit attributable to owners of Kumba | **9,615** | 12,335 |
| Impairment reversal | **–** | (4,789) |
| Net loss on disposal and scrapping of property, plant and equipment | **86** | 63 |
| Net loss on disposal of discontinued operations | **18** | – |
| | **9,719** | 7,609 |
| Taxation effect of adjustments | **(23)** | 1,309 |
| Non-controlling interest in adjustments | **(19)** | 810 |
| **Headline earnings** | **9,677** | 9,728 |
| **Headline earnings (Rand per share)** | | |
| Basic | **30.28** | 30.47 |
| Diluted | **30.06** | 30.26 |

# OPERATIONAL PERFORMANCE

## SISHEN

Improved safety performance and product quality with focus on value over volume

### ABOUT SISHEN

Sishen is our flagship operation, producing around 68% of our annual iron ore production. Located close to the town of Kathu in the Northern Cape province, the mine has been in operation since 1953 and is one of the largest single open-pit mines in the world. All our mined ore is transported to the beneficiation plant where it is crushed, screened and beneficiated. We are the only haematite ore producer in the world to fully beneficiate its product, made possible through our dense medium separation (DMS) and jig technology. At year-end, the mine had 4,312 permanent full-time employees and 4,440 full-time contractors.

### OUTLOOK

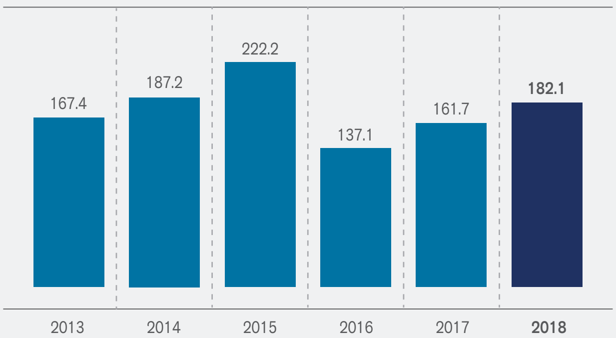
- LoM stripping ratio of ~3.4 over the LoM, to exceed 4.5 in 2019 as the major cut backs progress to expose ore
- Waste performance anticipated to remain ~170 Mt to 180 Mt in 2019
- Reserve life increased to 14 years (from 13 years in 2017), as a result of the optimised pit slope design built into the updated LoM plan life and productivity improvements
- Unit costs expected to be between R315/ tonne to R325/tonne for 2019
- Negotiations continuing with 10 remaining Dingleton homeowners

### SISHEN PERFORMANCE SUMMARY

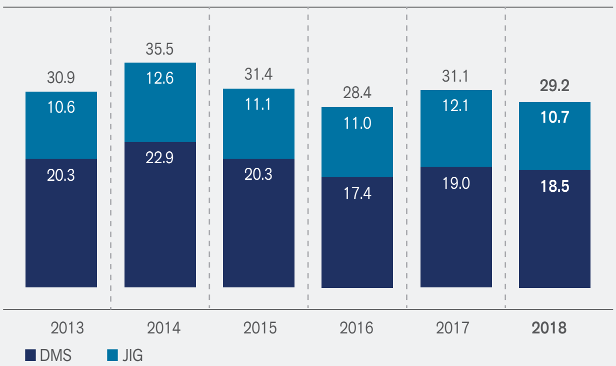
With continued focus on value over volume, Sishen achieved several improvements with the stabilisation of the work management processes through the ongoing implementation of the Operating Model. This year saw improvement in operating equipment efficiency, resulting in the reduction of unscheduled work by up to 40% in some areas and Sishen achieving a 91% mine to plan compliance.

| | |
|---|---|
| ✓ | A significant reduction in HPIs of 55% compared to 2017, with zero fatalities (2017: zero) |
| ✓ | Waste removal of 182.1 Mt, up 20.4 Mt on 2017 levels, reflecting improved productivity |
| ✓ | Sishen's second UHDMS modular plant was completed in August and commissioned in November 2018. The modular plant will treat the remaining JIG discards and supports our focus on the beneficiation of low-grade ore |
| ✓ | 23% increase in haul truck productivity |
| ✓ | Increase in product quality from 64.3 Fe% in 2017 to 64.6 Fe% in 2018 |
| ✓ | Continued progress at Dingleton project, Sishen mining right incorporates Dingleton area |
| ✓ | R48.7 million investment in social and community projects, up R35.7 million on 2017 |
| ✓ | ISO 14001, ISO 9001, OHSAS 18001 certified |
| ✗ | Production of 29.2 Mt, down 1.9 Mt on 2017 levels, in line with market guidance |
| = | Unit costs of R290/tonne: R3/tonne higher than 2017, driven by mining inflation, offset by cost savings |

**Sishen waste** (Mt)




**Sishen production** (Mt)



# KOLOMELA
## Driving to full potential with continued productivity gains and significant safety improvements

### ABOUT KOLOMELA

Kolomela is our newest operation, beginning production in 2011, ahead of schedule and on budget. Situated near the town of Postmasburg in the Northern Cape province, the mine produces lump ore with excellent physical strength that allows us to meet a niche demand. The mine produces above the original name-plate capacity of 9 Mtpa and with improved efficiencies will deliver ~14 Mtpa over the reserve life. Kolomela was the first mine to successfully introduce automated drilling technology. At year-end, the mine had 1,382 permanent full-time employees and 1,070 full-time contractors.

### OUTLOOK

- Waste mining is expected to be in the range of ~55 to 60 Mt in 2019, with a stripping ratio of ~4 over the LoM
- Reserve life of 14 years in line with 2017, due to continued on-lease exploration that made available additional Measured and Indicated Mineral Resources for conversion to Ore Reserves
- Expected production for 2019 is ~ 13 to 14 Mt, with strip ratio exceeding 4 in 2019
- Unit costs expected to be between R265/tonne and R275/tonne for 2019
- Continuous drive to improve productivity and efficiency resulted in efficiency improving to 65% of benchmark

### KOLOMELA PERFORMANCE SUMMARY

Good productivity and efficiency gains were achieved by the Kolomela drill fleet which increased by 43% with the introduction of automated drilling technology and the 996 waste shovel tempo increasing by 36%. Kolomela achieved an 80% mine to plan compliance.

| | |
|---|---|
| ✓ | A significant reduction in HPIs of 80%, compared to 2017, with zero fatalities (2017: zero) |
| ✓ | Waste volumes of 56.0 Mt, 0.4 Mt higher than 2017 levels, with run rates remaining according to plan, with stripping ratio of 3.5 |
| ✓ | Increase in product quality from 64.2 Fe% in 2017 to 64.3 Fe% in 2018 |
| ✓ | R47.1 million investment in social and community projects up on 2017 |
| ✓ | ISO 14001, ISO 9001 certified; OHSAS 18001 compliant |
| = | Production of 13.9 Mt, in line with 2017 levels |
| = | Unit costs of R249/tonne were R11/tonne higher than 2017, in line with expectations, largely due to above inflationary pressures from higher fuel prices and inflation-related costs |

✓ Positive outcome
= Neutral outcome
✗ Negative outcome

**Kolomela waste** (Mt)


**Kolomela production** (Mt)


Our performance

# OPERATIONAL PERFORMANCE

CONTINUED

## SALDANHA BAY RAIL AND PORT

Volumes railed continues to be hampered by Transnet rail performance

### ABOUT SALDANHA BAY RAIL AND PORT

Located in Saldanha Bay in the Western Cape province, the Saldanha Bay port is owned and operated by Transnet, a state-owned entity. The port is connected to Sishen and Kolomela by Transnet's Sishen/Kolomela-Saldanha iron ore export channel (IOEC) railway line. Iron ore is exported from the port to markets in the Asia-Pacific, Europe and the Middle East and North Africa.

Continued focus on improved blending strategies, striving to further improve the quality consistency of our products. Closely monitoring performance delivery through a joint executive steering committee with Transnet.

### OUTLOOK

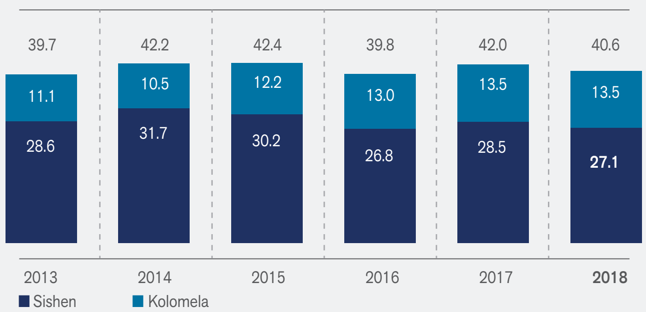
- Total sales are expected to be between 43 Mt and 44 Mt in 2019
- Working with Transnet on both strategic and operational levels to achieve 100% contract capacity
- Back of port solution provided by Transnet
- Optimised loading, with reduced loading variability and improved turnaround times at the operations

### SALDANHA BAY AND PORT PERFORMANCE SUMMARY

- ✗ 40.6 Mt railed to Saldanha Bay port, down 1.4 Mt on 2017 due to derailments
- ✗ 40.0 Mt shipped from Saldanha port, 1.6 Mt down on 2017
- ✗ Export sales of 40.0 Mt, 1.6 Mt down on 2017
- ✗ Logistical challenges throughout 2018, seven derailments and railway bridge damaged, resulting in force majeure declared on Kumba
- ✗ High finished product stock of 5.3 Mt at the end of 2018 compared to 6.2 Mt at 1H18 and 4.3 Mt in 2017

✓ Positive outcome
= Neutral outcome
✗ Negative outcome

**Volumes railed** (Mt)




**Volumes shipped** (Mt)

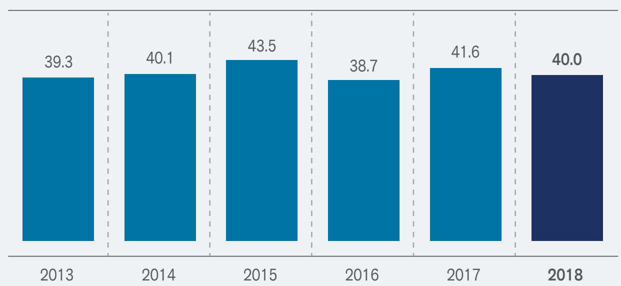


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**Image 1**
Loading and hauling operations in G80 pit at Sishen.

**Image 2**
Signage of the sacred covenant safety code along the road to the entrance at Kolomela.

**Image 3**
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.

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**Image 4**
Keotshepile Babusi, a mining operator and Steven Farao, a mine dispatcher working at the Kolomela control room.

**Image 5**
Load out station at Kolomela.

**Image 6**
Process plant at Kolomela.

# ORE RESERVES AND MINERAL RESOURCES

Kumba's ability to create value for all its stakeholders is dependent on its key natural resources and the continuous improvement of its ability to mine and beneficiate these resources at its Sishen and Kolomela mining operations to extract niche iron ore saleable product. As at 31 December 2018, the Company's reportable mineral endowment status is summarised as follows:

This statement is an abridged version of the more comprehensive Kumba Iron Ore 2018 Ore Reserve (and Saleable Product) and Mineral Resource Report, which can be accessed at: https://www.angloamericankumba.com/investors/annual-reporting/reports-archive/2018.aspx

**Image 1**
Iwan Grobbelaar and Kenny Moloyi, drone operators performing mapping and surveying of all the mine pits at Kolomela Mine.

**Image 2**
Lybon Madusi, a ground probe technical specialist operating the slope stability radar at the Sishen G80 pit.

**Image 3**
Tlotlano Sehularo, Tumelo Magopa, Victor Jansen, Mathidiso Pitsoyogae and instructor Leah Coetzee, checking welding workpieces at the Tsipi skills and civil training centre.

**Image 4**
Remote operated drill rigs at Kolomela.

**Image 5**
Leeufontein pit at Kolomela.

**Image 6**
The dual loading system used at Kolomela, two haul trucks line up on either side of an excavator to increase productivity.

**Image 7**
Otladisa Mokhutsane, a laboratory technician in the quality control laboratorium at Kolomela.

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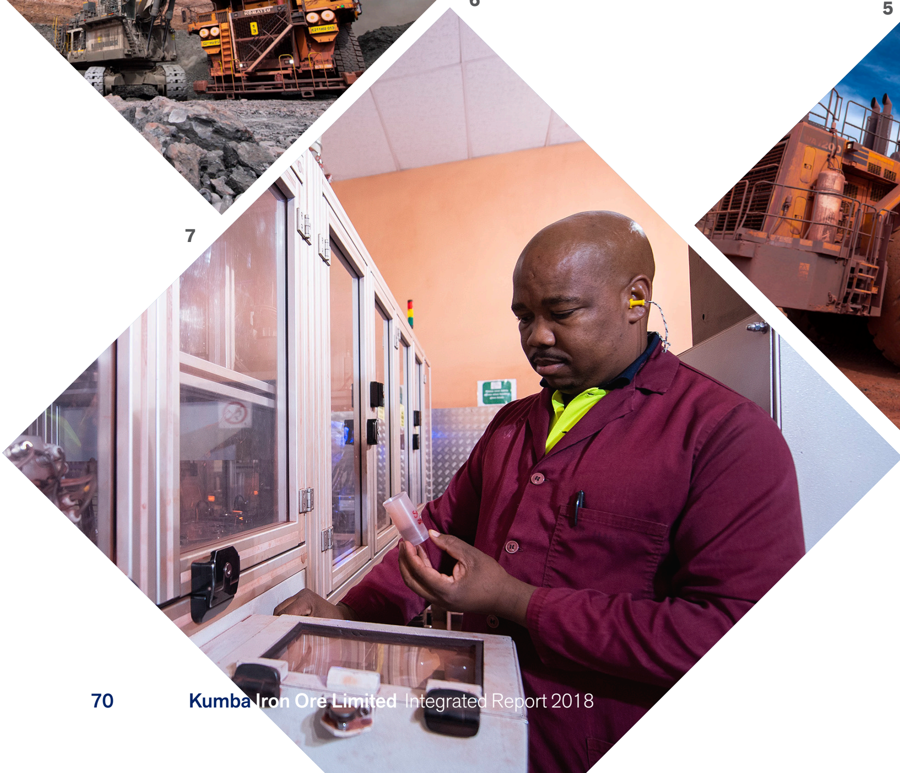

## INTRODUCTION

The 2018 Kumba Saleable Product, Ore Reserve and Mineral Resource estimates remaining after 31 December 2018 as stated in this report, is an abridged version of the online Ore Reserve (and Saleable Product) and Mineral Resource Report, which in turn is a condensed version of the full 2018 in-house Kumba Resource and Reserve Statement, derived from detailed site-specific Reserve and Resource Statements; these are structured to address all aspects listed in the SAMREC Table 1 checklist of reporting and assessment criteria as per the SAMREC Code (2016 edition).

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Kumba's mineral endowment (all South African-based) forms the foundation of its business with the following key focus areas in place to sustainably extract value over the Company's combined mine life:

**Exploration**
Focused on defining additional and improving geological confidence or existing Mineral Resources in South Africa

**Planning**
Focused on balancing an increased, but sustainable annual product output and safeguarding a niche product strategy

**Technology**
Developed to extract maximum value

**Operations**
Executed to achieve planning and deliver a saleable product at a lower unit cost

**Marketing**
Conducted via competing through premium product delivery

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### SALEABLE PRODUCT – CURRENT VALUE

KOLOMELA:
179.1 Mt at 64.6% average Fe

SISHEN:
415.6 Mt at 64.4% average Fe

TOTAL:
594.8 Mt at 64.5% average Fe

**A 10% YEAR-ON-YEAR NET INCREASE OF 56.2 MT IS NOTED FOR THE KUMBA SALEABLE PRODUCT**

### ORE RESERVES (INCLUSIVE OF SALEABLE PRODUCT) – CURRENT VALUE

KOLOMELA:
188.2 Mt at 63.9% average Fe
(against 50% Fe cut-off grade)

SISHEN:
544.6 Mt at 57.5% average Fe
(against 40% Fe cut-off grade)

TOTAL:
732.9 Mt at 59.1% average Fe

**AN 8% INCREASE OF 56.5 MT IS NOTED FOR THE TOTAL KUMBA ORE RESERVE COMPARED TO 2017**

### EXCLUSIVE MINERAL RESOURCES (REPORTED IN ADDITION TO ORE RESERVES) – POTENTIAL FUTURE VALUE

KOLOMELA:
171.6 Mt at 62.3% average Fe
(against 50% Fe cut-off grade)

SISHEN:
470.3 Mt at 54.0% average Fe
(against 40% Fe cut-off grade)

ZANDRIVIERSPOORT PROJECT:
419.1 Mt at 35.4% average Fe
(against 20.2% Fe cut-off grade)

TOTAL:
1,061.0 Mt at 48.0% average Fe

**OVERALL, THE EXCLUSIVE MINERAL RESOURCE BASE DECREASED BY 12% (148.2 MT) YEAR ON YEAR**

# ORE RESERVES AND MINERAL RESOURCES

CONTINUED

## SALIENT FEATURES

Since 2014, Kumba has implemented deliberate strategic actions to protect and grow its business. These strategic thrusts can be broadly categorised into three focus areas and periods:

- **Survival and resetting the base (2014 to 2015):** in response to a rapidly declining iron ore price, Kumba had to strategically redesign the Sishen and Kolomela pits to reduce mining costs (waste stripping) and realign with the prevailing market conditions. Whilst this resulted in lower costs it also materially impacted annual production as well as the life-of-mine
- **Stabilisation and positioning for growth (2016 to 2018):** the Company revised its strategy to optimise the business, through the Anglo American operating model, technology, productivity improvements, continued cost reduction and price maximisation through delivering niche products
- **Benchmark performance and growth (2018 to 2022):** following a strategic review of the business, Kumba launched a full potential business transformation programme – Tswelelopele which aims to:
  - Horizon 1 – significantly improve Kumba's margin through achieving benchmark productivities, maximising our resource utilisation (increasing yield and lump/fine ratio), cost control and obtaining the maximum price for our superior iron ore products
  - Horizon 2 – to grow and sustain Kumba's core business which is the mining and beneficiation of high-grade ore bodies in the Northern Cape province of the Republic of South Africa. The focus in this horizon is extending our life-of-mine through incorporating the operational improvements realised in Horizon 1, development of low-grade beneficiation technologies and exploration in the Northern Cape

The 2018 Reserve and Resource statement is a culmination of the strategy and work from 2014 to 2018. The following salient features are highlighted:

- Saleable Product increased by 10% year-on-year, taking into account annual depletion
- Ore Reserves were replenished by 112.1 Mt in 2018 (before the effect of 50.4 Mt of depletion in 2018 is accounted for), and as a result the reserve life at Sishen increased from 13 to 14 years while Kolomela remained stable at 14 years
- Year-on-year significant lowering of ex-pit stripping ratio at both operations
- The geological risk associated with the life-of-mine plans has been reduced at both operations because of the continued focus on on-lease exploration
- Good progress with mining right amendments
- Clean bill of health received from independent external auditors after review of the Kolomela Ore Reserve and Mineral Resource estimation and reporting processes

Other salient features of the 2018 Reserve and Resource statement:

- The prospecting right for the Zandrivierspoort project, an undeveloped low-grade magnetite deposit in the Limpopo province, will expire in 2020. Sishen Iron Ore Company is in discussions with its joint venture partner ArcelorMittal SA on future options. The project has not progressed beyond a concept study level

**Image 1**
A view from the Jig plant at Sishen.

**Image 2**
Khutso Tladi and Londi Langa, work management planners at the Kolomela control room.

**Image 3**
Remote operated drill rigs at Kolomela.

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**Image 4**
A view of Kolomela.

**Image 5**
Irvin-Lee Willemse at the Sishen life-of-mine truck workshop, working on a Komatsu 860E haultruck.

**Image 6**
Komatsu loader operator, Tebogo Oliphant and mine engineer Tim Truter conducting a SLAM at Kolomela.

Our performance

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# ORE RESERVES AND MINERAL RESOURCES

CONTINUED

## SALEABLE PRODUCT

### 2018 SALEABLE PRODUCT STATEMENT (REFERENCED AGAINST 2017)

| Operation/Project | Saleable Product category | 2018 Yield (%) | 2017 Yield (%) | 2018 Tonnage (Mt) | 2018 Average Grade (% Fe) | 2017 Tonnage (Mt) | 2017 Average Grade (% Fe) |
|---|---|---|---|---|---|---|---|
| **MINING OPERATIONS** | | | | | | | |
| Kolomela[1, 2, 3, 4] | Proved | | | **114.8** | **64.6** | 88.3 | 64.3 |
| | Probable | **95.2** | 95.8 | **64.3** | **64.6** | 80.0 | 64.4 |
| | **Sub-total** | | | **179.1** | **64.6** | 168.3 | 64.3 |
| Sishen[1, 2, 3, 4] | Proved | | | **248.4** | **64.8** | 261.3 | 64.7 |
| | Probable | **76.3** | 74.0 | **167.2** | **63.9** | 109.1 | 64.4 |
| | **Sub-total** | | | **415.6** | **64.4** | 370.4 | 64.6 |
| **COMPANY** | | | | | | | |
| **Kumba** Total Saleable Product | Proved | | | **363.3** | **64.7** | 349.6 | 64.6 |
| | Probable | **81.2** | 79.6 | **231.5** | **64.1** | 189.0 | 64.4 |
| | **Total** | | | **594.8** | **64.5** | 538.6 | 64.5 |

[1] Operational status – steady-state
[2] Mining method – open-pit
[3] Ore type – haematite iron ore
[4] Owned by Kumba Iron Ore Limited – 76.3%; owned by Sishen Iron Ore Company (Pty) Ltd – 100%

**Kolomela's Saleable Product increased by 10.9 Mt (+6%) from 2017 to 2018.**

Kolomela is primarily a direct shipping ore (DSO) operation where high-grade run-of-mine ore is crushed and screened to deliver Saleable Product at the required top sizes. The 2018 life-of-mine (LoM) plan DSO product makes up 94% of the total Saleable Product portfolio remaining after 31 December 2018. The remainder of the portfolio is made up via the scheduled beneficiation of lower Fe (medium) grade run-of-mine through a small-scale modular dense media separation (DMS) plant.

A year-on-year change in the DSO to DMS ratio of 95 : 5 in 2017 to 94 : 6 in 2018 has resulted in a decrease in the average planned yield from 95.8% to 95.2%.

The 2018 Kolomela life-of-mine (LoM) Plan schedule delivers an average 60% lump (64.8% Fe) and 40% fines (63.2% Fe) Saleable Product.

**Sishen's Saleable Product increased by 45.3 Mt (+12%) year-on-year.**

Sishen beneficiates its high-grade run-of-mine by means of a dense media separation (DMS) plant and its medium grade run-of-mine by means of a Jig facility combined with a small-scale ultra-high dense media separation (UHDMS) plant treating a portion of the Jig plant discard, to produce its Saleable Product.

The DMS versus Jig and UHDMS Saleable Product ratio as per the 2018 life-of-mine plan is 66 : 34.

The overall average estimated yield at Sishen increased by 2.3% year on year because of improvements in the efficiencies in the beneficiation plants, the largest driver is the Jig (and modular UHDMS) Plant with a yield increase from 64.7% in 2017 LoM Plan to 69.5% in the 2018 LoM Plan, and increased product from the UHDMS modular expansion project commissioned in 2018.

The 2018 Sishen LoM Plan schedule delivers an average 71.8% lump and 28.2% fines Saleable Product. Three different lump (different top-size and Fe) and four different fines (different Fe) products are produced on-site.

The Sishen products are co-stockpiled with the Kolomela products at the Saldanha export harbour to deliver the following products:
- Premium Lump @ 65.5% Fe
- Premium 20 mm Lump @ 65.2% Fe
- Standard Fines @ 63.5% Fe

## ORE RESERVES

### 2018 ORE RESERVE STATEMENT (REFERENCED AGAINST 2017)

| | | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Grade (%Fe) | | | | Grade (%Fe) | | |
| Operation/Project | Reserve Category | **Tonnage (Mt)** | **Average** | **Cut-off** | **Reserve life (years)** | Tonnage (Mt) | Average | Cut-off | Reserve life (years) |
| **MINING OPERATIONS** | | | | | | | | | |
| Kolomela[1, 2, 3, 4] | Proved | **117.9** | **64.3** | | | 92.2 | 64.3 | | |
| | Probable | **70.4** | **63.2** | **50.0** | **14** | 83.4 | 64.4 | 50.0 | 14 |
| | **Sub-total** | **188.2** | **63.9** | | | 175.6 | 64.4 | | |
| Sishen[1, 2, 3, 4] | Proved | **323.0** | **58.7** | | | 352.1 | 58.3 | | |
| | Probable | **221.6** | **55.6** | **40.0** | **14** | 148.7 | 57.1 | 40.0 | 13 |
| | **Sub-total** | **544.6** | **57.5** | | | 500.8 | 58.0 | | |
| **COMPANY** | | | | | | | | | |
| **Kumba** Total Ore Reserves | Proved | **440.9** | **60.2** | | | 444.3 | 59.6 | | |
| | Probable | **291.9** | **57.5** | | | 232.1 | 59.8 | | |
| | **Total** | **732.9** | **59.1** | | | 676.4 | 59.6 | | |

1 Operational status – Steady-state
2 Mining method – Open-pit
3 Ore type – Haematite iron ore (including run-of-mine stockpiles)
4 Owned by Kumba Iron Ore Limited – 76.3%; Owned by Sishen Iron Ore Company (Pty) Ltd – 100%

**Kolomela's Ore Reserves increased by 12.6 Mt (+7%) from 2017 to 2018.**

The primary aspect that resulted in a year-on-year increase of the Kolomela Ore Reserves is the continued focus on on-mine exploration, which made available additional Measured and Indicated Mineral Resources for conversion to Ore Reserves, resulting in 25.9 Mt more Ore Reserves.

The increase as explained above was offset by a 13.8 Mt Ore Reserve (excluding modified Inferred) run-of-mine production figure).

Other minor movements accounted for a 0.5 Mt increase in Ore Reserves.

The Probable Ore Reserve figure includes 12.3 Mt @ 57.2% Fe run-of-mine stockpile ore.

For Kolomela a 14-year remaining reserve life, at an average 13.6 Mtpa Saleable Product output for 13 of the 14 years of reserve life (ramp-down in last year) has been quoted in 2018. It is derived from an average 14.3 Mtpa plant feed, which includes 2% modified Inferred run-of-mine ore. The 2017 LoM Plan quoted the same average annual Saleable Product output but derived from a plant feed including 8% modified Inferred run-of-mine ore. The year-on-year decrease in the modified Inferred considered in the LoM Plan is the result of a continued on-mine exploration focus to minimise the Inferred ore to de-risk the Kolomela LoM Plan. The reserve life increased with one year from 2017, primarily because of the on-mine exploration programme making available additional Measured and Indicated Mineral Resources for conversion to Ore Reserves.

**Sishen's Ore Reserves increased by 43.8 Mt (+9%) year-on-year.**

Most of the annual increase can be attributed to a steepening of the pit slopes of the Sishen pit design resulting in a 50.8 Mt increase in Ore Reserves, based on advances made in the spatial geotechnical modelling field enabling a better spatial understanding of pit slope failure mechanisms, allowing for optimisation of pit slope designs.

Furthermore, an improved resource-to-reserve conversion rate (application of a higher mining recovery efficiency modifying factor) based on improved actual operational efficiencies achieved for a prolonged period at Sishen resulted in a 21.7 Mt increase in Ore Reserves.

A change in the geological confidence classification method, whereby borehole sample representivity as measured against QA/QC metadata, was introduced in the Mineral Resource classification approach, resulting in an overall 11.6 Mt increase in Ore Reserves.

The increase in Ore Reserves as explained above was offset by an annual Ore Reserve run-of-mine production of 38.2 Mt (excluding modified Inferred run-of-mine ore).

Other minor year-on-year movements accounted for a 2.1 Mt decrease in Ore Reserves.

The Probable Ore Reserve figure includes 9.8 Mt @ 56.7% Fe run-of-mine stockpile ore.

For Sishen, a 14-year reserve life, at an average 31.6 Mtpa Saleable Product output for 13 of the 14 years of reserve life (ramp-down in last year) has been quoted in 2018. It is derived from an average 41.6 Mtpa plant feed, which includes 2% modified Inferred run-of-mine ore. The 2017 LoM Plan quoted 0.9 Mtpa more Saleable Product, derived from a plant feed including 5% modified Inferred run-of-mine in total. The two-year increase in reserve life can mainly be attributed to a decrease in the annual Saleable Product output, but also a steepening of the slopes of the pit design based on a refinement of the geotechnical model and assessment approach, as well as an improvement in the planned resource-to-reserve conversion based on improved operational efficiencies, resulting in more Ore Reserves year on year.

# ORE RESERVES AND MINERAL RESOURCES

CONTINUED

## MINERAL RESOURCES

### 2018 EXCLUSIVE MINERAL RESOURCE STATEMENT (REFERENCED AGAINST 2017)

| | | **2018** | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **Average Grade** | | | | Average Grade | | | |
| Operation/Project | Resource Category | **Tonnage (Mt)** | **(% Fe)** | **(% $Fe_3O_4$)** | **Cut-off Grade (% Fe)** | Tonnage (Mt) | (% Fe) | (% $Fe_3O_4$) | Cut-off Grade (% Fe) |
| **MINING OPERATIONS** | | | | | | | | | |
| **Kolomela**[1,$] Mineral Resources in addition to Ore Reserves (including long-term stockpiled ore) | Measured (outside LoMP) | **36.4** | **63.2** | **Not applicable** | **50.0** | 36.2 | 63.1 | Not applicable | 50.0 |
| | Indicated (outside LoMP) | **96.1** | **61.8** | | | 57.5 | 62.8 | | |
| | **Measured and Indicated (outside LoMP)** | **132.5** | **62.1** | | | 93.8 | 62.9 | | |
| | Inferred (considered in LoMP) | **5.3** | **64.7** | | | 19.4 | 60.9 | | |
| | Inferred (outside LoMP) | **33.8** | **62.5** | | | 60.2 | 63.3 | | |
| | Total Inferred | **39.1** | **62.8** | | | 79.6 | 62.7 | | |
| | **Sub-total** | **171.6** | **62.3** | | | 173.4 | 62.8 | | |
| **Sishen**[2,$] Mineral Resources in addition to Ore Reserves (including long-term stockpiled ore) | Measured (outside LoMP) | **113.7** | **56.3** | | **40.0** | 216.8 | 55.7 | | 40.0 |
| | Indicated (outside LoMP) | **325.2** | **53.4** | | | 228.4 | 49.0 | | |
| | **Measured and Indicated (outside LoMP)** | **438.9** | **54.2** | | | 445.1 | 52.3 | | |
| | Inferred (considered in LoMP) | **11.8** | **57.2** | | | 25.5 | 57.5 | | |
| | Inferred (outside LoMP) | **19.6** | **47.9** | | | 89.0 | 49.0 | | |
| | Total Inferred | **31.4** | **51.4** | | | 114.5 | 50.9 | | |
| | **Sub-total** | **470.3** | **54.0** | | | 559.6 | 52.0 | | |
| **Kumba** Mining Operations Mineral Resources in addition to Ore Reserves | Measured (outside LoMP) | **150.1** | **58.0** | | | 253.0 | 56.8 | | |
| | Indicated (outside LoMP) | **421.3** | **55.3** | | | 285.9 | 51.8 | | |
| | **Measured and Indicated (outside LoMP)** | **571.4** | **56.0** | | | 538.9 | 54.2 | | |
| | Inferred (considered in LoMP) | **17.2** | **59.5** | | | 44.9 | 59.0 | | |
| | Inferred (outside LoMP) | **53.3** | **57.2** | | | 149.2 | 54.8 | | |
| | Total Inferred | **70.5** | **57.7** | | | 194.1 | 55.8 | | |
| | **Total** | **641.9** | **56.2** | | | 733.0 | 54.6 | | |

$ Ore type: Haematite; Owned by Kumba Iron Ore Ltd: 76.3%; Owned by Sishen Iron Ore Company: 100%

**1 Kolomela quotes a 1.9 Mt (-1%) decrease in exclusive Mineral Resources from 2017 to 2018.**

The overall decrease is primarily the result of:

- Geological model updates based on new borehole information and the subsequent upgrade of Inferred and Indicated Mineral Resources to Measured Mineral Resources, the latter in turn being converted to Ore Reserves (-10.3 Mt)
- Reconciliation to correct for a 5.6 Mt error made in the reporting of the 2017 Mineral Resources associated with one of the orebodies (not included in the Kolomela LoM Plan) as well as actual depletion of Inferred Mineral Resources considered for the LoM Plan exceeding the depletion of Q4 of 2017 as forecast at the time of reporting by 0.7 Mt
- Other minor movements (annual depletion of Inferred Mineral Resources) accounts for a further 1.3 Mt decrease in Mineral Resources

The decrease as explained above was offset by a 12.9 Mt (-3.3 Mt Measured, +13.4 Mt Indicated and +2.8 Mt Inferred) increase based on geological model refinements as well as a 3.2 Mt annual increase in the level of long-term medium-grade stockpiles Indicated Mineral Resources.

Of the 33.8 Mt Inferred Mineral Resources (outside the LoM Plan), 21.3 Mt is extrapolated.

Of the total 168.4 Mt exclusive Mineral Resource, 3.2 Mt (@ 55.0% Fe) Indicated Mineral Resources are located on long-term stockpiles and are not in situ.

**2 The Sishen exclusive Mineral Resources showed a material 16% decrease of 89.3 Mt year-on-year.**

The material year-on-year decrease is primarily the result of the removal of a 79.4 Mt portion from low-grade Mineral Resource portfolio. The Sishen Low-grade Project Pre-feasibility study geometallurgical test-work has proved the Flagstone lithology portion of the low-grade Mineral Resources to demonstrate poor beneficiation characteristics rendering the material to have a high risk of reasonable prospects for eventual economic extraction if high-grade ore is not available for blending.

The other major contributing factor is based on a change in the Mineral Resource classification methodology, whereby a sample representivity indexing system was introduced as a parameter to spatially measure the confidence in grade continuity. It is based on the QA/QC metadata associated with borehole samples and resulted in a 17.5 Mt decrease in Mineral Resources.

Other minor positive and negative movements adding up to a net +7.6 Mt make up for the overall -89.3 Mt year-on-year movement.

Of the 19.6 Mt Inferred Mineral Resources (outside the LoM Plan), 1.0 Mt is extrapolated.

Of the total 470.3 Mt exclusive Mineral Resource, 17.9 Mt (@ 43.4% Fe) Indicated Mineral Resources are located on long-term stockpiles and are not in situ.

## 2018 EXCLUSIVE MINERAL RESOURCES STATEMENT (REFERENCED AGAINST 2017) continued

| | | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Average Grade | | | | Average Grade | | |
| Operation/Project | Resource Category | Tonnage (Mt) | (% Fe) | (% $Fe_3O_4$) | Cut-off Grade (% Fe) | Tonnage (Mt) | (% Fe) | (% $Fe_3O_4$) | Cut-off Grade (% Fe) |
| **PROJECTS** | | | | | | | | | |
| **Zandrivierspoort**[3, #] Mineral Resources in addition to Ore Reserves | Measured (outside LoMP) | **95.1** | **35.5** | **41.4** | | 107.0 | 34.7 | 41.5 | |
| | Indicated (outside LoMP) | **178.8** | **35.5** | **39.9** | | 206.4 | 34.4 | 42.5 | |
| | **Measured and Indicated (outside LoMP)** | **273.9** | **35.5** | **40.5** | **20.2** | 313.4 | 34.5 | 42.2 | 21.7 |
| | Inferred (considered in LoMP) | **0.0** | **0.0** | **0.0** | | 0.0 | 0.0 | 0.0 | |
| | Inferred (outside LoMP) | **145.2** | **35.2** | **37.6** | | 162.7 | 34.5 | 38.1 | |
| | Total Inferred | **145.2** | **35.2** | **37.6** | | 162.7 | 34.5 | 38.1 | |
| | **Sub-Total** | **419.1** | **35.4** | **39.5** | | 476.1 | 34.5 | 40.8 | |
| **Kumba Projects** Mineral Resources in addition to Ore Reserves | Measured (outside LoMP) | **95.1** | **35.5** | **41.4** | | 107.0 | 34.7 | 41.5 | |
| | Indicated (outside LoMP) | **178.8** | **35.5** | **39.9** | | 206.4 | 34.4 | 42.5 | |
| | **Measured and Indicated (outside LoMP)** | **273.9** | **35.5** | **40.5** | | 313.4 | 34.5 | 42.2 | |
| | Inferred (considered in LoMP) | **0.0** | **0.0** | **0.0** | | 0.0 | 0.0 | 0.0 | |
| | Inferred (outside LoMP) | **145.2** | **35.2** | **37.6** | | 162.7 | 34.5 | 38.1 | |
| | Total Inferred | **145.2** | **35.2** | **37.6** | | 162.7 | 34.5 | 38.1 | |
| | **Total** | **419.1** | **35.4** | **39.5** | | 476.1 | 34.5 | 40.8 | |
| **COMPANY** | | | | | | | | | |
| **Kumba** Mineral Resources in addition to Ore Reserves | Measured (outside LoMP) | **245.2** | **49.2** | | | 360.0 | 50.2 | | |
| | Indicated (outside LoMP) | **600.1** | **49.4** | | | 492.3 | 44.5 | | |
| | **Measured and Indicated (outside LoMP)** | **845.3** | **49.4** | | | 852.4 | 46.9 | | |
| | Inferred (considered in LoMP) | **17.2** | **59.5** | | | 44.9 | 59.0 | | |
| | Inferred (outside LoMP) | **198.5** | **41.1** | | | 311.9 | 44.2 | | |
| | Total Inferred | **215.7** | **42.5** | | | 356.8 | 46.1 | | |
| | **Grand total** | **1061.0** | **48.0** | | | 1209.2 | 46.7 | | |

[#] Ore type: Magnetite (and Haematite); Owned by Kumba Iron Ore Ltd: 38.2%; Owned by Sishen Iron Ore Company (Pty) Ltd: 50%

**[3] The Zandrivierspoort Project exclusive Mineral Resources decreased by a material 57.0 Mt (-12%) from 2017 to 2018.**

The material year-on-year decrease can be attributed to:

- A change in the economic assumptions resulting in a smaller resource shell size because of smaller price to cost margins based on a revised business case where pig iron is produced instead of a magnetite concentrate, resulting in a 40.0 Mt decrease in the Mineral Resource
- A complete redo of the geological solids model (replacing the 2013 explicit solids model with an implicit solids model), as well as an update of the Magnetite grade estimates. In terms of the latter, borehole sample Magnetite values, that was previously derived from assay information using a general assumption in terms of the Banded Iron Formation mineralogy, was replaced with values derived from a correlation between assay derived Magnetite values and direct Satmagan laboratory test result Magnetite values. These combined model refinements resulted in a 17.0 Mt decrease in Mineral Resources

# OUR LEADERSHIP

## BOARD

**Dr Mandla Gantsho** (56)

**Chairperson, Independent non-executive director**

PhD, MPhil, MSc, BCom (Hons), CA(SA)

**Joined the Board on 1 August 2017**

VALUE ADDED TO THE BOARD:
**Strategic leadership, governance and financial acumen**

**Themba Mkhwanazi** (48)

**Chief Executive and member of Exco**

BEng (Chemical), BEng (Hons)

**Joined the Board on 1 September 2016**

VALUE ADDED TO THE BOARD:
**Strategic leadership, mining and technical insight**

**Bothwell Mazarura** (45)

**Chief Financial Officer and member of Exco**

BCompt (Hons), CA(SA), ACA, CA(Z)

**Joined the Board on 1 September 2017**

VALUE ADDED TO THE BOARD:
**Governance, financial acumen and leadership**

**Buyelwa Sonjica** (68)

**Independent non-executive director**

BA, BA (Hons)

**Joined the Board on 1 June 2012**

VALUE ADDED TO THE BOARD:
**Transformation best practice, stakeholder engagement and sustainability best practice**

**Dolly Mokgatle** (62)

**Independent non-executive director**

BProc, LLB, HDip Tax Law

**Joined the Board on 7 April 2006**

VALUE ADDED TO THE BOARD:
**Legal and regulatory competence, stakeholder engagement and transformation best practice**

**Terence Goodlace** (59)

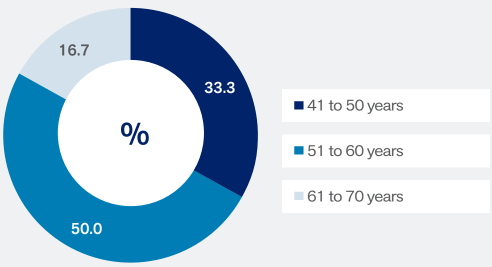
**Independent non-executive director**

BComm, MBA
HND (Metalliferous mining)

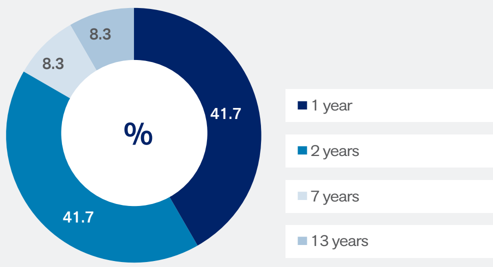
**Joined the Board on 24 March 2017**

VALUE ADDED TO THE BOARD:
**Mining strategy and operational experience, occupational safety, health and risk management**

### Board diversity – age




### Board diversity – tenure




For more information on the Board refer to:
www.angloamericankumba.com/about-us/leadership-teams/our-board.aspx

## Seamus French (56)

**Non-executive director**

BEng (Chemical)

**Joined the Board on**
**24 March 2017**

VALUE ADDED TO THE BOARD:
**Mining and technical expertise, commercial and business acumen and strategic leadership**

## Nonkululeko Dlamini (45)

**Non-executive director**

BCom (Accounting), CA(SA)

**Joined the Board on**
**1 November 2016**

VALUE ADDED TO THE BOARD:
**Financial acumen and governance**

## Stephen Pearce (54)

**Non-executive director**

BA Business (Accounting), FCA, GIA, MAICD

**Joined the Board on**
**24 March 2017**

VALUE ADDED TO THE BOARD:
**Mining expertise, financial acumen and strategic leadership**

## Sango Ntsaluba (58)

**Independent non-executive director**

BCompt (Hons), MComm (Dev Fin), HDip in Tax law, CA(SA)

**Joined the Board on**
**5 June 2017**

VALUE ADDED TO THE BOARD:
**Governance, financial acumen and tax expertise**

## Mary Bomela (45)

**Independent non-executive director**

BCom (Hons), CA(SA), MBA

**Joined the Board on**
**1 December 2017**

VALUE ADDED TO THE BOARD:
**Strategy, financial acumen and governance**

## Ntombi Langa-Royds (56)

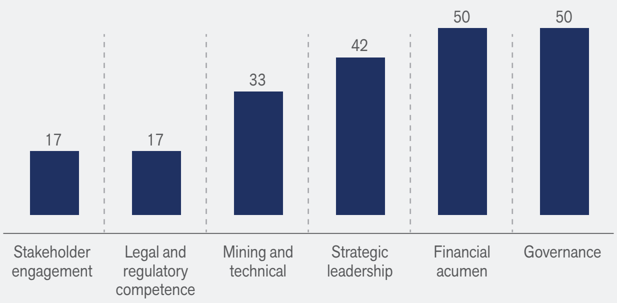
**Independent non-executive director**

BA (Law), LLB

**Joined the Board on**
**1 December 2017**

VALUE ADDED TO THE BOARD:
**Human resources, legal and regulatory competence and governance**

### Board diversity – skills and experience (%)



# OUR LEADERSHIP

## CONTINUED

## EXECUTIVE COMMITTEE (EXCO)

**Darrin Strange** (50)
**Chief Operating Officer**
BSc, Mineral Science (Extractive Metallurgy)
Joined Exco on 1 April 2018

VALUE ADDED TO EXCO:
**Operational, mining and engineering expertise**

**Yvonne Mfolo** (51)
**Executive head of public affairs**
BA (Communications), Advanced Journalism Certificate
Joined Exco on 1 August 2011

VALUE ADDED TO EXCO:
**Public affairs, community relations, stakeholder management and regulatory competence**

**Virginia Tyobeka** (52)
**Executive head of human resources**
BAdmin, BAdmin (Hons), MAP
Joined Exco on 4 January 2010

VALUE ADDED TO EXCO:
**Human resources, industrial relations and stakeholder management**

**Philip Fourie** (56)
**Executive head of safety and sustainable development**
BTech (Safety Management), MBA
Joined Exco on 1 May 2017

VALUE ADDED TO EXCO:
**Health and safety management, environmental management and regulatory knowledge**

**Glen Mc Gavigan** (42)
**Executive head of technical and projects**
MEng (Mining), GDE (Rock Engineering), PrSciNat
Joined Exco on 1 August 2016

VALUE ADDED TO EXCO:
**Technical expertise, engineering and mining**

**Timo Smit** (50)
**Executive head of marketing and seaborne logistics**
MSc (Applied Physics), PhD (Materials Science and Engineering)
Joined Exco on 1 September 2007

VALUE ADDED TO EXCO:
**Marketing, logistics and macro-economic insight**

**Sam Martin** (47)
**Executive head strategy and business development**
BCom, BCompt (Hons), CTA, CA(SA)
Joined Exco on 16 July 2018

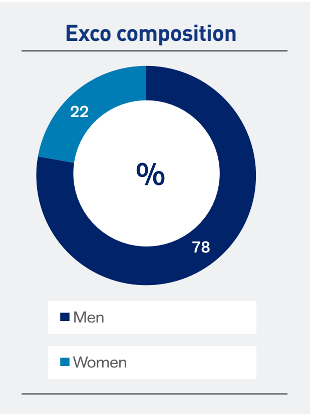
VALUE ADDED TO EXCO:
**Acquisitions, finance acumen and strategy**

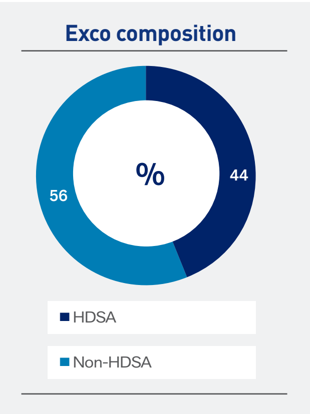
INCLUDING:

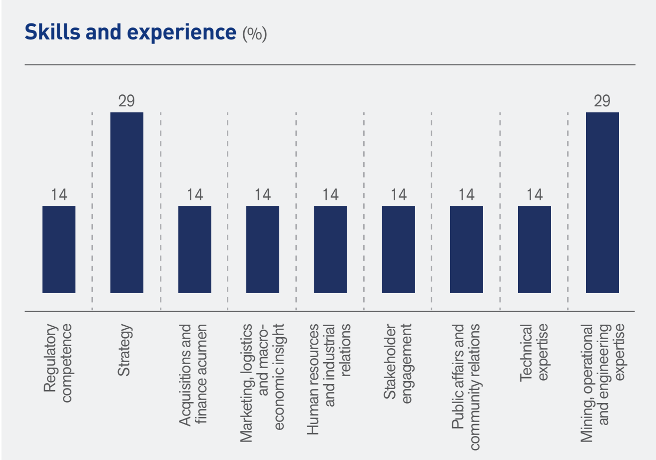
**Themba Mkhwanazi** (48)
**Chief Executive and member of Exco**

**Bothwell Mazarura** (45)
**Chief Financial Officer and member of Exco**

## EXCO COMPOSITION




For more information on Exco refer to: www.angloamericankumba.com/about-us/leadership-teams/executive committee.aspx.

# CORPORATE GOVERNANCE

The Board's value creation lies in driving outcomes that support the Company's vision of being a world-class responsible miner.

## THE KUMBA BOARD

In keeping with the spirit of sound leadership, the Board promotes strong principles of integrity within the Company which aids in the entrenching excellence in every facet of the business. The Board is the overall custodian of good corporate governance and is fully committed to the four governance outcomes (as described in King IV), namely: an ethical culture, good performance, effective control and legitimacy.

The Board plays a key role in setting the strategic direction of the Company. The Board also provides continuous oversight of material matters, acting as an independent check and balance for the executive management team, whose main responsibility remains the management of the business.

The directors are diverse in their academic qualifications, industry knowledge, experience, race and gender.

This diversity encourages robust debate at Board and committee level to ensure that appropriate and effective judgement and guidance are provided to management in delivering on the Company's strategic objectives.

Details pertaining to the attendance and activities of the Board can be found on page 85.

During 2018 our governance framework, practices and processes enabled the Board to create value through:

- a diverse and transformed Board – that approved and implemented the Board Race and Gender Diversity Policy
- skills and experience for the future – developing and approving a robust Board Succession Plan
- independent thinking – as evidenced by the annual review of independence
- engaged and committed members – demonstrated through active participation and attendance in meetings
- focused and informed discussions – with dedicated committees operating under clear terms of reference and work plans

## GOVERNANCE

# CORPORATE GOVERNANCE
CONTINUED

## BOARD CHARTER

The Board charter regulates the parameters within which the Board operates and ensures the application of the principles of good corporate governance in all its dealings. The charter sets out the roles and responsibilities of the Board and individual directors, including its composition and relevant procedures of the Board. The charter is aligned with the provisions of all relevant statutory and regulatory requirements, including, among others, the Companies Act No 71 of 2008, as amended (the Companies Act), the JSE Listings Requirements, King IV and the Company's Memorandum of Incorporation (MoI).

In 2017, the Board charter was reviewed to ensure alignment with significant changes to the JSE Listings Requirements, and the revised MoI. In 2018, these amendments were applied and tested and where it was found to be lacking, changes were effected in line with good corporate governance practices.

In addition to the regulatory framework provided by the charter and the terms of reference of the committees, Board members are encouraged to seek independent advice at the Company's expense during the execution of their fiduciary duties and responsibilities, as needed. Members also have direct access to Kumba's external and internal auditors, the Company Secretary, and members of the executive management team, at all times.

## CODE OF GOOD CORPORATE GOVERNANCE

The Board always endeavours to apply good corporate governance practices when dispensing its fiduciary duties and is fully committed to the four governance outcomes as set out in King IV. A self-assessment was conducted against the 16 principles and the Board is satisfied that the Company has adopted the principles and is mindfully overseeing the application of the recommended practices.

The JSE Listings Requirements currently require JSE-listed companies to report on the extent to which they apply the principles set out in King IV.

The application of the King IV principles and adoption of the various recommendations are more fully detailed in our King IV application register, available on the Company's website: http://angloamericankumba.com/investors/corporategovernance.aspx.

### The Sishen Iron Ore Company (Pty) Ltd (SIOC) Board

Governance at Kumba must take cognisance of the fact that its main operating subsidiary, SIOC, has a shareholding structure that reflects the B-BBEE requirements of the Mining Charter and the MPRDA. Our governance framework is structured in a manner that ensures that the two entities are legally independent and have fully operational but separate boards, with clearly defined responsibilities and authority. The Company's Delegation of Authority Framework (DAF) regulates the approval levels of each separate board.

The SIOC Board comprises non-executive directors drawn from the entity's minority shareholders, executive directors drawn from the Kumba Exco, and an independent non-executive director.

The SIOC Board has full authority over matters pertaining to SIOC. It does, however, take into account recommendations and suggestions from SIOC's shareholders, including its majority shareholder, Kumba. In its governance of SIOC's operations, the SIOC Board is supported by Kumba's Board committees and feedback on deliberations of Board committees' meetings is provided at each SIOC Board meeting.

### Directors' independence

The Board considers eight out of the 12 non-executive directors to be independent. Two of the 12 directors are representatives of our majority shareholder and two of the 12 directors represent executive management.

The Board has adopted a policy dealing with directors' tenure in excess of nine years. Best practice requires the Board to consider whether that director continues to be independent, in executing his/her fiduciary duties. The Board, upon recommendation from its Nominations and Governance Committee, has adopted the policy of annually reviewing directors' independence if their tenure has reached nine years or more (subject to a maximum tenure of 12 years), and recommending to shareholders that they be re-appointed.

Based on the results of the evaluation the Board will consider whether there is any evidence of any circumstance and/or relationship that would impair their judgement, to the extent that their independence is compromised.

In respect of other directors, determination of independence is guided by King IV, the JSE Listings Requirements and other best practices. The Chairperson of the Board is also subject to re-appointment by the Board and an annual evaluation of his independence and performance is carried out during the annual Board evaluation process.

The lead independent director provides the Chairperson with feedback from the annual evaluation process.

### Conflicts of interest

A procedure operates to ensure the disclosure of conflicts and for the consideration and, if appropriate, the authorisation of those conflicts by non-conflicted directors. In addition, if a situation arises for consideration in which a director has a material personal interest, the affected director does not take part in decision-making.

### Appointment of directors

The Nominations and Governance Committee recommends the appointment of new directors for approval by the Board according to a strategy and succession plan adopted by the Board. The Board Charter details the procedure for appointments to the Board. Such appointments are formal and transparent and a matter for the entire Board, assisted by the Nominations and Governance Committee. When appointing directors, the Board takes cognisance of its needs in terms of skills, experience, diversity, size and demographics.

The Board approved a Board diversity policy which includes race and gender diversity in line with the requirements of the JSE Listings Requirements. The Board agreed that no voluntary targets be set for 2018 with the undertaking that the policy will be reviewed annually to assess whether or not to set voluntary targets. The Board currently has HDSA representation of 73%.

The Board agreed to a target of 50% female representation by 2019. The Board currently has female representation of close to 45%. All new appointments were considered in terms of the diversity policy and as a result three black males and two black females were appointed during 2017.

Details of all Board members can be found on page 85. The Board, with the support and guidance of the Nominations and Governance Committee, ensures that the promotion of gender diversity is given credence within the framework of the Board succession strategy.

### Changes to the Board of directors

Mr Allen Morgan stepped down as independent non-executive director at, and with effect from, the Company's AGM on 11 May 2018, after serving 12 years on Kumba's Board. During his tenure, Mr Morgan chaired the Human Resources and Remuneration committees, while also serving as a member of the Audit Committee, Risk and Opportunities Committee, Social, Ethics and Transformation Committee, and the Nominations and Governance Committee.

The following changes were effected to important functions of the Board with effect from 11 May 2018:

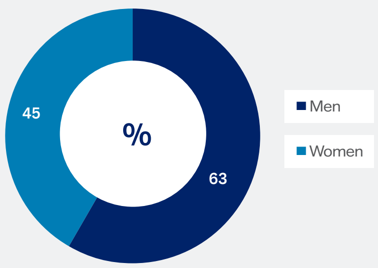
- Mr Terence Goodlace was appointed as lead independent non-executive director. Mr Goodlace stepped down as Risk and Opportunities Committee chairperson. As lead independent director he serves as a member of all the Board committees;
- Mrs Dolly Mokgatle was appointed as Risk and Opportunities Committee chairman. Mrs Mokgatle stepped down as Social, Ethics and Transformation Committee chairperson. but remains a member of the Social, Ethics and Transformation Committee;
- Mrs Buyelwa Sonjica was appointed as Social, Ethics and Transformation Committee chairperson;
- Mrs Ntombi Langa-Royds was appointed as Human Resources and Remuneration Committee chairperson following Mr Allen Morgan's retirement from the Board and as chairperson of the committee.

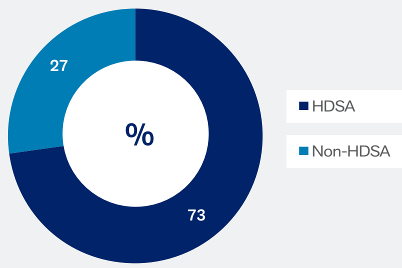
## NON-EXECUTIVE DIRECTORS' FEES

Details regarding non-executive directors' remuneration are contained in the Remuneration Report on page 122.

The 2019 annual general meeting (AGM) notice will contain further details on non-executive directors' fees.
https://www.angloamericankumba.com/investors/annual-reporting/reports-archive/2018.aspx

### Board composition



# CORPORATE GOVERNANCE
## CONTINUED

**Responsibilities of the Chairperson and the Chief Executive**
The responsibilities of the Chairperson and the Chief Executive are clearly defined and separated, as set out in the Board Charter. While the Board may delegate authority to the Chief Executive in terms of the Board Charter, the separation of responsibilities is designed to ensure that no single person or group can have unrestricted powers and that no single person or group can have unrestricted powers and that appropriate balances of power and authority exist on the Board. The Chairperson is responsible for leading the Board and for ensuring the integrity and effectiveness of the Board and its committees. In contrast, the Chief Executive is responsible for the effective management and running of the Company's business in terms of strategies and objectives approved by the Board.

**Rotation and election of directors**
The Board has robustly tested, through an independent evaluation, the independence of all non-executive directors in the year under review, especially those directors that are retiring and eligible for re-election at the 2019 AGM.

The following non-executive directors are retiring and are recommended for re-appointment:
Mrs Buyelwa Sonjica
Mr Terence Goodlace
Mrs Nonkululeko Dlamini

(as set out in the notice of AGM of 2019).

https://www.angloamericankumba.com/investors/annual-reporting/reports-archive/2018.aspx

Mrs Dolly Mokgatle will retire at the AGM in May 2019 having served on the Board for almost 13 years.

**Board and committee evaluations**
The Board, on an annual basis, conducts an assessment of its own performance and of the appropriateness and effectiveness of its procedures and processes.

The Board agreed that an external assessment will be performed every second year which includes personal interviews with individual directors. The Board commenced with this process in October 2018 and it will include an evaluation of: the performance of the Chairperson; the performance of the chairpersons of all the committees; and the performance and independence of retiring directors eligible for re-election at the AGM in 2019.

### STANDING BOARD COMMITTEES
The Board has established five standing committees through which it executes some of its duties, namely: the Audit Committee; Risk and Opportunities Committee; Social, Ethics and Transformation Committee (Setco); Human Resources and Remuneration Committee (Remco); and Nominations and Governance Committee. Each committee consists of a minimum of four members, as contained in the terms of reference.

Each committee, including the Board, promotes strong principles of integrity within the Company and the Board remains the overall custodian of good corporate governance. Sound corporate governance provides a critical foundation, both for safeguarding stakeholder value and for achieving our key strategic focus areas. Independent Board oversight and guidance in relation to our operations and activities are key in driving compliance and embedding the highest levels of integrity and transparency throughout the Company. Through our governance structures and committees, decisions are made and responses are generated to ensure value is created for the Company and its stakeholders.

The following applies to Board committees:
- the Chairperson and lead independent director attends all Board committee meetings, either as a member or as an invitee
- the Chief Executive Officer has a standing invitation to attend all committee meetings and other Company executives attend meetings where appropriate and on invitation
- at the discretion of the committee chairmen, in-committee discussions are occasionally conducted without invitees
- all members of Board committees are directors of the Company
- where committee membership is prescribed by the Company Act 2008 or the JSE Listings Requirements, or is recommended by King IV, Board committees are constituted in accordance with such requirements or recommendations
- committee chairmen report on proceedings of committee meetings to the Board. and minutes of all Board and committee meetings are included in Board papers

The Board committees have fulfilled their responsibilities in accordance with their regulatory mandate (where applicable) and terms of reference. The Chairperson of the Board is a permanent invitee at all the committee meetings.

**Dr Mandla Gantsho**
Chairperson

### Kumba Board

The Board is the custodian of good corporate governance and sets the tone for ethical leadership. Its role and responsibilities include setting the Company's strategic direction, providing continuous oversight of the Company's performance on material matters, and holding the executive management team accountable to provide ethical and effective leadership.

The Board charter sets out the composition, scope of authority, responsibilities and powers and functioning of the Board. The Board believes that its combined skills and experience is appropriate for the effective execution of its duties.

The table below sets out the composition of the Board and attendance by the directors at Board meetings:

| BOARD | 9 February 2018 | 8 March 2018 (IR sign-off) | 11 May 2018 | 1 June 2018 (Strategy) | 20 July 2018 | 19 September 2018 | 4 December 2018 | Total meeting attendance |
|---|---|---|---|---|---|---|---|---|
| MSV Gantsho | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7/7 |
| TM Mkhwanazi | ✓ | Apology* | ✓ | ✓ | ✓ | Apology | ✓ | 5/7 |
| BA Mazarura | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7/7 |
| DD Mokgatle | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7/7 |
| AJ Morgan | ✓ | ✓ | Resigned | - | - | - | - | 2/2 |
| BP Sonjica | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 7/7 |
| SG French | ✓ | Apology* | ✓ | ✓ | ✓ | Apology | ✓ | 5/7 |
| NS Dlamini | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | Apology | 6/7 |
| TP Goodlace | ✓ | Apology* | ✓ | ✓ | ✓ | ✓ | ✓ | 6/7 |
| ST Pearce | ✓ | Apology* | ✓ | ✓ | ✓ | ✓ | ✓ | 6/7 |
| SS Ntsaluba | ✓ | ✓ | ✓ | ✓ | ✓ | Apology | ✓ | 6/7 |
| NB Langa-Royds | ✓ | ✓ | Apology | ✓ | ✓ | ✓ | ✓ | 6/7 |
| MS Bomela | ✓ | ✓ | ✓ | ✓ | ✓ | Apology | ✓ | 6/7 |

* Comments submitted ahead of the meeting.

# CORPORATE GOVERNANCE

## CONTINUED

The material issues deliberated on by the Board are determined by assessing the external environment, the needs and expectations of key stakeholders and other significant topics and/or events. Deliberations of the various committees enable the Board discussions to be more focused on strategic matters.

This year, presentations from senior management provided the Board with an opportunity to interrogate matters under discussion in more detail and to engage with senior management on material issues.

The following were key activities and outcomes from the Board in 2018:

- contributed to, reviewed and approved the strategy of the Company presented by management and the budgets and business plans necessary for the implementation of the approved strategy
- satisfied itself that all material risks in the strategy and business plans have been duly considered and addressed by management through defined mitigating strategies
- approved a gender and race diversity policy which considers and promotes gender diversity at Board level
- approved a Board Protocol on Stakeholder Engagement setting direction for how stakeholder relationships should be approached, conducted and managed
- approved a Board Succession Plan to ensure continuity of leadership at Board level
- considered a Board Skills and Diversity matrix in line with its succession plan

The Board is happy to confirm that it has achieved the actions identified to further enhance governance outcomes set out for 2018. Actions for implementation in 2019 have been identified and agreed by the Board.

<table>
<tr><th>ACTIONS TO FURTHER ENHANCE GOVERNANCE OUTCOMES 2018</th><th>HOW THIS WAS ACHIEVED</th><th>ACTIONS FOR 2019</th></tr>
<tr><td>Assessment of King IV and ensuring updated requirements are complied with</td><td>A detailed assessment by principle was conducted and the Board Charter was extensively reviewed to ensure alignment with the recommendations set out in the King IV code</td><td rowspan="5">Conduct King IV assessment<br><br>Conclusion of external Board evaluation commenced with in October 2018 and drafting of an action plan based on the outcomes of the evaluation.<br><br>Review the implementation of the Company's approved strategy and provide feedback and guidance to management on further possible further enhancements<br><br>Continuous monitoring of independence and actual or potential conflicts of interests are dealt with in such a way that the independence of non-executive directors is not adversely affected</td></tr>
<tr><td>Ensure that the governing body leads ethically and effectively</td><td>During the year the Board was updated on the implementation strategy for the code of conduct and reviewed compliance to the code. It also reviewed the results of an ethical risk assessment which identified top risks in the areas of bribery and corruption, managing and protection of information and stakeholder relations. Management made representations in terms of mitigating strategies and the Board is satisfied that appropriate actions have been put in place to address non-compliance</td></tr>
<tr><td>Continued oversight to ensure that the approved strategy is implemented and appropriately resourced and that any possible risks are identified, and mitigating actions put in place</td><td>The Board held a workshop on 1 June 2018 to consider and approve the Company's strategy. Management provided quarterly updates on progress, inclusive of possible risks, mitigating strategies and opportunities</td></tr>
<tr><td>Ensure that the Board remains independent in discharging its duties</td><td>Details of directors' interests in the Company, their material external shareholdings in companies they are directors of and other directorships are solicited on a quarterly basis so as to determine whether there are any actual or potential conflicts of interest. A register containing the directors' interest is circulated to all directors on a quarterly basis<br><br>The independence of non-executive directors who have served on the Board for longer than nine years is assessed annually. In this regard assessments were carried out for Mrs Dolly Mokgatle and Mr Allen Morgan (now retired)</td></tr>
<tr><td>Adoption of a fair and responsible policy</td><td>Feedback from shareholders at the 2017 AGM was taken into consideration and the Company's remuneration policy and the implementation thereof was put to shareholders by way of separate non-binding advisory votes as recommended in the King IV Code, and approved by shareholders</td></tr>
</table>

**Sango Ntsaluba**
Chairperson

## Audit Committee

The role of the Audit Committee, in addition to its statutory duties in line with the Companies Act 2008, as amended, is to provide independent oversight of the effectiveness of the Company's financial, operating, compliance and risk management controls. In addition, the Audit Committee assesses the effectiveness of the internal auditors and the independence and effectiveness of the external auditors. This assists the Board in monitoring the integrity of the Company's Annual Financial Statements and related external reports.

The Committee comprises independent non-executive directors who collectively have the necessary financial literacy, skill and experience to perform the committee role and functions effectively.

The Committee executed its duties in terms of paragraph 3.84(g) of the JSE Listings Requirements as reported in the Audit Committee's report in the AFS (refer to pages 19 to 23 in the AFS).

The table below sets out the composition of the Audit Committee and attendance at the meetings by its members for 2018:

| MEMBER | 7 February 2018 | 9 May 2018 | 18 July 2018 | 16 October 2018 (Ad hoc) | 22 November 2018 | Number of meetings: 5 |
|---|---|---|---|---|---|---|
| SS Ntsaluba (Chairperson) | ✓ | ✓ | ✓ | ✓ | ✓ | 5/5 |
| DD Mokgatle | ✓ | ✓ | ✓ | ✓ | ✓ | 5/5 |
| AJ Morgan | ✓ | ✓ | Resigned | - | - | 2/2 |
| TP Goodlace | ✓ | ✓ | ✓ | ✓ | ✓ | 4/5 |
| MS Bomela* | ✓ | ✓ | Apology | ✓ | Apology | 4/5 |

* Mrs Mary Bomela was appointed as a member on 7 February 2018.

Meetings of the Audit Committee were aligned with the key reporting and regulatory timelines. The Chairperson of the Audit Committee met with Internal Audit and external auditors separately between Audit Committee meetings. The agenda also provided for meetings solely with members of the Audit Committee.

# CORPORATE GOVERNANCE
## CONTINUED

The following were key activities and outcomes from the Audit Committee in 2018:
- reviewed and approved the 2017 annual financial statements and the press and SENS announcements
- reviewed legal and regulatory matters that could have a significant impact on the Company's financial statements
- assessed the impact of the general control environment on the statutory audit, and reporting to executive management any areas of perceived weaknesses
- assessed the Company's finance function to ensure that the Company has established appropriate financial reporting procedures and that those procedures are operating effectively
- reviewed the appropriateness of the expertise and experience of the Chief Financial Officer
- reviewed the Committee's terms of reference and annual work plan and made recommendations to the Board in terms of ensuring its continued effectiveness
- held a technical training session where members were updated on new accounting standards including IFRS 9, IFRS 15 and IFRS 16, and were provided with an overview of mining specific accounting standards
- assessed, as required by paragraph 3.84(g)(iii) of the JSE Listings Requirements, the suitability of the external auditor and lead audit partner for recommendation to shareholders for approval
- discussed audit firm rotation, audit partner rotation and Audit Quality Indicators
- considered the JSE's guidance on proactive monitoring

The Audit Committee is pleased to confirm that it has achieved the actions identified to further enhance governance outcomes set out for 2018. Actions for implementation in 2019 have been identified and agreed by members of the Committee (also refer to the Audit Committee's report in the AFS pages 19 to 23).

<table>
<tr><th>ACTIONS TO FURTHER ENHANCE GOVERNANCE OUTCOMES 2018</th><th>HOW THIS WAS ACHIEVED</th><th>ACTIONS FOR 2019</th></tr>
<tr><td>Review and consider management's plans in respect of future changes to IFRS, most notably:<br>• IFRS 9 Financial Instruments<br>• IFRS 15 Review from Contracts with Customers<br>• IFRS 16 Leases<br>and assess key judgements made by management and the assessment of impacts on systems, processes and disclosure</td><td>The Committee had a technical training session where management and external auditor made representations in respect of the implementation of the changes to the accounting standards</td><td rowspan="4">Continued focus on ensuring that the Company's financial systems, processes and controls are operating effectively, are consistent with the Company's complexity and are responsive to changes in the environment and industry<br><br>Consideration of the JSE's guidance on proactive monitoring<br><br>Continuous monitoring of the independence of external auditor and lead independent audit partner<br><br>Consideration of the implications of the practices recommended in King IV Code relating to the five lines of defence of combined assurance<br><br>Rotation of audit firm. The Company has initiated a formal process for the appointment of a new external auditor for the 2020 financial year. The tender process is under way and is expected to be finalised by May 2019</td></tr>
<tr><td>Continued assessment of King IV and ensuring updated requirements are complied with</td><td>The Committee, with the assistance of the Company Secretary, continuously assessed that activities were carried out in line with the recommendations as per the King IV Code</td></tr>
<tr><td>Ensuring systems are in place to enable the Company to comply with extensible business reporting language (XBRL) reporting, from July 2018, as mandated by the Companies Intellectual Property Commission (CIPC)</td><td>During 2018 the Company implemented a system to facilitate extensible business reporting language (XBRL) reporting as mandated by the Companies Intellectual Property Commission (CIPC), as at 31 December 2018 two successful submissions have been made to the CIPC</td></tr>
<tr><td>Consider and assess the lead audit partner rotation to ensure continued independence and objectivity of the external audit provider and recommend to the Board the appointment of Ms Nita Ranchod as the new audit partner, to be proposed to the shareholders at the 2018 AGM</td><td>The Committee considered and assessed the independence of the external auditor and was satisfied that engagements were conducted at arm's length<br><br>The Committee considered the appointment of Ms Nita Ranchod as independent audit partner, which appointment was recommended to the Board and proposed to and approved by shareholders in May 2018</td></tr>
</table>

**Dolly Mokgatle**
Chairperson

## Risk and Opportunities Committee

The Risk and Opportunities Committee aims to understand, mitigate and manage key risks and ensure recognition of opportunities in an integrated manner. The Company operates a risk management framework and policy which integrates risk management into the core business strategy and functions. This encompasses both opportunities and associated risks when developing strategy within the Board-approved risk tolerance and appetite levels. This committee reviews the management of risks and monitors the effectiveness of compliance efforts in conjunction with the Audit Committee.

The Board is ultimately responsible for risk and opportunity management and takes into consideration the potential positive and negative effects of the same risks on the achievement of the Company's strategic objectives.

The Committee comprises three members of the Audit Committee, three additional non-executive directors and one executive director. Although not members of the Committee, the Chief Financial Officer, together with the heads of internal audit, information management, risk and compliance, are permanent invitees to the meetings of the Committee.

Refer to page 36 for detail information on how the Company managed its risks and opportunities during 2018.

The table below sets out the composition of the Risk and Opportunities Committee and attendance at the meetings by its members for 2018:

| MEMBER | 6 February 2018 | 9 May 2018 | 17 July 2018 | 28 November 2018 | Number of meetings: 4 |
|---|---|---|---|---|---|
| DD Mokgatle (Chairperson)^ | ✓ | ✓ | ✓ | ✓ | 4/4 |
| TP Goodlace # | ✓ | ✓ | ✓ | ✓ | 4/4 |
| AJ Morgan* | ✓ | ✓ | Resigned | - | 2/2 |
| BP Sonjica | ✓ | ✓ | ✓ | ✓ | 4/4 |
| SG French | ✓ | ✓ | ✓ | ✓ | 4/4 |
| SS Ntsaluba | ✓ | ✓ | ✓ | ✓ | 4/4 |
| NB Langa-Royds~ | Not appointed | ✓ | ✓ | ✓ | 3/3 |
| TM Mkhwanazi | ✓ | ✓ | ✓ | ✓ | 4/4 |

^ Mrs Dolly Mokgatle was appointed as Chairperson on 11 May 2018.
* Mr Allen Morgan resigned on 11 May 2018.
# Mr Terence Goodlace was appointed as Lead Independent Director on 11 May 2018 and stepped down as Chairperson of the Risk and Opportunities Committee on the same day.
~ Mrs Ntombi Langa-Royds was appointed as a member on 9 May 2018.

# CORPORATE GOVERNANCE

## CONTINUED

The following were key activities and outcomes from the Risk and Opportunities Committee in 2018:

- considered and reviewed the effectiveness, quality, integrity and reliability of the Company's risk management processes
- monitored, developed and communicated the processes for clarifying and managing risks across the Company and oversaw the implementation of an effective policy and plan for risk management
- provided guidance to the Board on how to determine what constitutes excessive risk taking and to set the level of risk appetite and tolerance
- ensured that the disclosure regarding risk was comprehensive, timely and relevant
- ensured that in identifying risks, consideration was given to the upside presented by such risks to ensure that possible opportunities are captured in a responsible manner and in the best interest of the organisation
- reviewed the adequacy of the Company's information management systems, processes and policies to ensure that potential threats are appropriately contained and addressed
- reviewed the adequacy of the insurance programme thereby ensuring that the Company is appropriately covered for any risk, damage or loss

The Risk and Opportunities Committee is happy to confirm that it has achieved the actions identified to further enhance governance outcomes set out for 2018. Actions for implementation in 2019 has been identified and agreed by members of the Committee.

| ACTIONS TO FURTHER ENHANCE GOVERNANCE OUTCOMES 2018 | HOW THIS WAS ACHIEVED | ACTIONS FOR 2019 |
|---|---|---|
| • Monitoring of risks on an ongoing basis to ensure that mitigating action plans are in place<br>• Level of risk appetite and tolerance | Reporting of the risks and opportunities at the Management Risk Committee (sub-committee of Exco) and quarterly reporting and review at the Risk and Opportunities Committee of the Board<br><br>The Committee has reviewed the Company's risk profile on an ongoing basis and have tracked mitigation plans<br><br>The Committee further reviewed and approved the Company's level of risk appetite and tolerance | Further develop the framework for identifying and pursuing of opportunities<br><br>Review the combined assurance framework to ensure all key risk areas receive adequate assurance<br><br>Review the regulatory compliance universe to ensure all key legislations are appropriately ranked and necessary monitoring is conducted<br><br>Review the implementation of the permitting strategy to ensure minimum permitting requirements are met and necessary monitoring of permitting conditions<br><br>Conduct Board strategy and risk and opportunities workshop to ensure risks that may impact key strategic objectives are identified and managed |
| Enhance the process of identifying and assessing opportunities that can add value to the organisation | Reviewed and updated the Integrated Risk Management Policy to align with best practice<br><br>Reviewed the Company's opportunities framework and definition thereof | |
| Periodic facilitation and review of risk assessments to determine material risks to which the Company may be exposed to and to consider, note and if necessary comment on the strategy for managing risks:<br>• consider, note and if necessary, comment on management responses to significant risks<br>• keep abreast of all changes to the risk management and control system and ensure that the risk profile is updated, as appropriate<br>• monitor, approve and communicate the processes for managing risks and opportunities across the group<br>• provide guidance to the Board on how to determine what constitutes excessive risk taking and to set the level of risk appetite and tolerance | Conducted facilitated risk workshops at operations and at functional level to ensure all key risks and opportunities are identified and assessed<br><br>Risk management is integrated as part of the day-to-day process and the risk registers are updated on a continuous basis | |

**Buyelwa Sonjica**
Chairperson

## Social, Ethics and Transformation Committee (Setco)

The Social, Ethics and Transformation Committee, as a statutory committee, plays a pivotal role in exercising oversight of organisational ethics, social and economic development, good corporate citizenship, regulatory compliance, environment, health and safety, stakeholder engagement and labour and employment issues. The purpose of the Committee is to ensure that the Company's activities positively impact its many stakeholders, including employees, communities, members of the public and the environment and report on this to its shareholders on an annual basis.

The Committee comprises a majority of non-executive directors. In addition to Committee members, the Chief Executive, and the executive heads of safety, health and environment, public affairs, and human resources attended committee meetings.

The Setco's report (the Sustainability Report 2018) is available on the Company's website at: www.angloamericankumba.com/investors/annual-reporting/reports-archive/2018.aspx

The table below sets out the composition of the Social, Ethics and Transformation Committee and attendance at the meetings by its members for 2018:

| MEMBER | 6 February 2018 | 8 May 2018 | 16 July 2018 | 21 November 2018 | Number of meetings: 4 |
|---|---|---|---|---|---|
| BP Sonjica (Chairperson)* | ✓ | ✓ | ✓ | ✓ | 4/4 |
| DD Mokgatle # | ✓ | ✓ | ✓ | ✓ | 4/4 |
| AJ Morgan^ | ✓ | ✓ | Resigned | - | 2/2 |
| TP Goodlace | ✓ | ✓ | ✓ | ✓ | 4/4 |
| NS Dlamini | Apology | ✓ | ✓ | Apology | 2/4 |
| NB Langa-Royds | ✓ | ✓ | ✓ | ✓ | 4/4 |

* Ms Buyelwa Sonjica was appointed as Chairperson on 11 May 2018.
# Mrs Dolly Mokgatle ceased to be Chairperson on 11 May 2018 following her appointment as Chairperson of the Risk and Opportunities Committee on the same date.
^ Mr Allen Morgan resigned on 11 May 2018.

# CORPORATE GOVERNANCE
## CONTINUED

The following were key activities and outcomes from the Social, Ethics and Transformation Committee in 2018:

- received and considered reports on safety, health and environmental performance, issues and challenges
- monitored non-compliance to the Company's corruption and business integrity policy and the code of conduct to ensure that robust controls remained in force
- monitored the Company's regulatory compliance to ensure the fulfilment of licence to operate conditions
- considered the effectiveness of the Company's ethical policies and processes as well as effective management of the whistle-blowing hotline
- monitored that there was a healthy balance between transformation activities to ensure adequate skills to maintain stability in the Company
- considered the impact of the Mining Charter on the Company and determining what further actions would be required for the Company to comply, once implemented
- considered and reviewed the Company's transformation initiatives
- reviewed the Company's stakeholder engagement strategy and recommendation thereof to the Board for approval
- reviewed the Company's social investment and donations policy and recommendation thereof to the Board for approval

The Social, Ethics and Transformation is happy to confirm that it has achieved the actions identified to further enhance governance outcomes set out for 2018. Actions for implementation in 2019 have been identified and agreed by members of the Committee.

| ACTIONS TO FURTHER ENHANCE GOVERNANCE OUTCOMES 2018 | HOW THIS WAS ACHIEVED | ACTIONS FOR 2019 |
|---|---|---|
| Review and consider management's plans in respect of future changes to the Mining Charter | Ongoing monitoring of Mining Charter developments and Company position on those:<br>• the Committee maintained close monitoring of the developments in the review of the Mining Charter and provided guidance to management on their envisaged implementation to meet the Mining Charter obligations;<br>• the Committee through the Board ensured that, during the consultation process, the Company's views on the revised charter were duly considered;<br>• the reviewing and motoring of management's plans was done through considering period reports and convening of ad hoc meetings between management a certain members of the Committee | The Committee will over and above discharging its statutory responsibility will focus on the following key areas:<br>• Develop and implement Safety Health and Environment (SHE) management improvement plan<br>• Increase focus in monitoring the Company's community development activities;Increase focus in monitoring the Company's efforts toward occupational health/hygiene including men's health<br>• Promote localised preferential procurement (supplier and enterprise development) |
| Continued assessment of King IV and ensuring updated requirements are complied with | Through its Charter the Committee as outlined in the Companies Act and in terms of King IV has dispensed it duties to ensure that the Company remains a responsible corporate citizen through monitoring the organisational ethics, sustainable development and stakeholder activities. This was achieved through quarterly reviews of:<br>• the safety, environmental and health reports<br>• ethics and whistleblowing report<br>• stakeholder engagement report<br>• transformation report<br>• regulatory compliance report | |
| Ensuring systems, procedures and policies are in place to enable the Company to comply with applicable statutory and regulatory requirements | The Committee considered the regulatory compliance report.<br><br>Reviewed and recommended the following governance documents for approval by the Board:<br>• Setco terms of reference<br>• Social investment and donations policy<br>• Stakeholder engagement policy and strategy<br>• Inclusive procurement policy – to optimise procurement from the host community of our operations | |

**Ntombi Langa-Royds**
Chairperson

## Human Resources and Remuneration Committee (Remco)

The purpose of the Human Resources and Remuneration Committee is to ensure that the remuneration policy is fair and reasonable, while remaining compliant with regulatory and governance requirements and that remuneration practices deliver shareholder value. It also ensures the establishment of an appropriate remuneration framework and adoption of remuneration policies which aim to attract and retain top talent, support the Company's long-term strategy and drive sustainable performance.

The Committee comprises a majority of non-executive directors. In addition to the Committee members, the Chief Executive, the Executive Head of Human Resources and the Anglo American plc Head of Reward attend Committee meetings.

The remuneration report for the year under review is on page 100.

The table below sets out the composition of the Human Resources and Remuneration Committee and attendance at the meetings by its members for 2018:

| MEMBER | 7 February 2018 | 8 May 2018 | 17 July 2018 | 26 November 2018 | Number of meetings: 4 |
|---|---|---|---|---|---|
| NB Langa-Royds (Chairperson)# | Not appointed | ✓ | ✓ | ✓ | 3/3 |
| AJ Morgan * | ✓ | ✓ | Resigned | - | 2/2 |
| DD Mokgatle | ✓ | ✓ | ✓ | ✓ | 4/4 |
| ST Pearce | ✓ | ✓ | ✓ | ✓ | 4/4 |
| MSV Gantsho | ✓ | ✓ | ✓ | ✓ | 4/4 |
| MS Bomela | ✓ | ✓ | ✓ | ✓ | 4/4 |
| TP Goodlace | Not appointed | Not appointed | ✓ | ✓ | 2/2 |

# Mrs Ntombi Langa-Royds was appointed as a member on 9 May 2018 and as Chairperson on 11 May 2018.
* Mr Allen Morgan resigned on 11 May 2018.

# CORPORATE GOVERNANCE
## CONTINUED

The following were key activities and outcomes from the Human Resources and Remuneration Committee in 2018:

- determined and approved the remuneration of the Chief Executive Officer, executive directors and prescribed officers
- reviewed the compensation base and proposed annual increases for bargaining and non-bargaining employees
- implemented the ESOP scheme approved by shareholders on 10 July 2018
- reviewed and recommended fees for non-executive directors
- reviewed and approved the 2018 share allocation awards under the deferred bonus arrangement (DBA) and long-term incentive plans (LTIPs) for the executive directors, prescribed officers and senior management
- approved the 2018 performance conditions for the executive directors' LTIP award
- approved the vesting of the 2015 long-term incentive awards and the 2017 deferred bonus awards for middle and senior management
- reviewed and approved the 2018 performance assessments for the executive directors and prescribed officers
- management provided an update on the implementation of the first phase of the three-year wage agreement which became effective on 1 July 2017

The Human Resources and Remuneration Committee is happy to confirm that it has achieved the actions identified to further enhance governance outcomes set out for 2018. Actions for implementation in 2019 have been identified and agreed by members of the Committee.

<table>
<tr><th>ACTIONS TO FURTHER ENHANCE GOVERNANCE OUTCOMES 2018</th><th>HOW THIS WAS ACHIEVED</th><th>ACTIONS FOR 2019</th></tr>
<tr><td>2017 – 2020 multi-year wage agreement<br>A three-year wage agreement was concluded on 25 August 2017. The agreement is effective from 1 July 2017 until 30 June 2020 and represents a differentiated annual salary increase of between 10% for the lower level categories and 7% for the higher level categories</td><td>Management provides regular updates on progress with the implementation of the multi-year wage agreement</td><td rowspan="3">Continued review of the Company's remuneration philosophy and policy to ensure it remains fair and reasonable<br><br>Review of the BSP and LTIP rules and presentation thereof to shareholders for approval at the May 2019 AGM<br><br>Shareholder engagement to ensure that the Company's remuneration policy and philosophy aligns with shareholder expectations<br><br>Review of the performance, remuneration and succession of executive directors, prescribed officers and senior management</td></tr>
<tr><td>Replacement ESOP scheme<br>The Envision phase II ESOP came to an end in November 2016 and has been unwound.<br><br>The Committee commissioned the design of a replacement ESOP scheme and has reviewed management proposals during the course of 2017</td><td>The replacement ESOP was approved by shareholders on 10 July 2018 and implemented on 6 August 2018</td></tr>
<tr><td>Executive directors' remuneration policy<br>Kumba will be putting its executive directors' remuneration policy to an advisory vote at the 2018 AGM and as such, the Committee has been considering appropriate incentive frameworks for the executive directors</td><td>The executive directors' policy was put to an advisory note to shareholders at the 2018 AGM and the resolution was passed with a majority vote of 99.95%</td></tr>
</table>

## Nominations and Governance Committee

The Nominations and Governance Committee has an independent role, operating as an overseer and a maker of recommendations to the Board for its consideration and final approval. The Committee does not assume the functions of management, which remain the responsibility of the executive directors, prescribed officers and other members of senior management. The Committee comprises independent non-executive directors. The Committee plays a key role in the promotion of sound corporate governance as integral to running of an organisation and delivering governance outcomes such as an ethical culture, good performance, effective control and legitimacy.

The table below sets out the composition of the Nominations and Governance Committee and attendance at the meetings by its members for 2018:

**Dr Mandla Gantsho**
Chairperson

| MEMBER | 6 February 2018 | 8 May 2018 | 17 July 2018 | 4 December 2018 | Number of meetings: 4 |
|---|---|---|---|---|---|
| Dr Mandla Gantsho | ✓ | ✓ | ✓ | ✓ | 4/4 |
| AJ Morgan* | ✓ | ✓ | Resigned | - | 2/2 |
| DD Mokgatle | ✓ | ✓ | ✓ | ✓ | 4/4 |
| TP Goodlace | ✓ | ✓ | ✓ | ✓ | 4/4 |
| SS Ntsaluba | ✓ | ✓ | ✓ | ✓ | 4/4 |

* Mr Allen Morgan resigned on 11 May 2018.

# CORPORATE GOVERNANCE

## CONTINUED

The following were key activities and outcomes from the Nominations and Governance Committee in 2018:

- developed a Board protocol on stakeholder engagement and recommended it to the Board for approval
- reviewed the Board succession plan for recommendation to the Board for approval
- initiated an external evaluation of the Board as a whole, its committees, individual directors and the Chairperson which will be concluded by Q1 2019
- assessed the competence of the Company Secretary as required by paragraph 3.84(h) of the JSE Listings Requirements
- considered and recommended changes to important functions of the Board which was communicated to shareholders through SENS and became effective on 11 May 2018
- developed a Board gender and race diversity policy for approval by the Board
- considered the succession planning and talent management processes

The Nominations and Governance Committee is happy to confirm that it has achieved the actions identified to further enhance governance outcomes set out for 2018. Actions for implementation in 2019 have been identified and agreed by members of the Committee.

| ACTIONS TO FURTHER ENHANCE GOVERNANCE OUTCOMES 2018 | HOW THIS WAS ACHIEVED | ACTIONS FOR 2019 |
|---|---|---|
| Continued assessment of King IV and ensuring updated requirements are complied with | Assessment is done on an ongoing basis to ensure compliance and adoption of changes | Commence recruitment of independent non-executive director<br><br>Complete external Board evaluation by end Q1 2019<br><br>Review succession of key executives |
| Assess the diversity and competency of the Board in discharging its duties | This was assessed against the policy approved in 2018<br><br>A Board skills and diversity profile was developed | |
| Ensuring policies and procedures are in place to ensure the governing body leads ethically and effectively | The following policies were reviewed and implemented:<br>• Gender and race diversity policy<br>• Board protocol on stakeholder engagement<br>• Board succession plan | |
| Sought independent advice in respect of the constitution and mandate of the special sub-committee of the Board | Independent advice in respect of the constitution and mandate of the special sub-committee was obtained. The committee was since dissolved as the opportunity was suspended | |

## EXECUTIVE COMMITTEE (Exco)

Exco comprises the individuals most closely involved in the Company's operations including:

- The Chief Executive (Chairperson of Exco)
- The Chief Financial Officer
- Executive heads of each material area

Its responsibilities are subject to the provisions of the DAF and include:

- executing corporate strategy, as approved by the Board
- prioritising capital expenditure allocations
- establishing and overseeing best management practices
- making senior managerial appointments
- overseeing managerial performance

All members of Exco have also been identified as prescribed officers of the Company in terms of the Companies Act.

**COMMITMENT TO CONTINUED EXCELLENCE**

*Our Executive Committee continually reviews the way we work by streamlining meetings, encouraging courageous and constructive discussions and eliminating duplication.*

*We call it "Work Smarter"*

## OTHER GOVERNANCE CONSIDERATIONS

### Ethics and Code of Conduct

We are committed to conducting a business that is consistent with Kumba's values, principles and leadership code through guidelines and policies that set out ethical culture. These policies guide our employees, our contractors, suppliers and all other stakeholders on how we conduct ourselves and the way we do business.

Kumba has upheld its principle of "zero tolerance" on unethical behaviour throughout its activities during the year under review. This has intrinsically been achieved through exercising rigorous ethics management and monitoring via a systematic and structured framework. Kumba has a clear governance structure charged with ethics management to ensure effective and efficient monitoring.

The Board, through the Audit and Social, Ethics and Transformation Committees, is the ultimate custodian of ethics management as outlined in the Companies Act and King IV. Kumba has established a Management Ethics Committee which is responsible for ongoing management of ethics and convenes on a quarterly basis to consider all ethics and integrity-related issues and reports to the Board Committees. For efficiency purposes, an Ethics Steering Committee was established, which meets on a monthly basis and reports to the Ethics Committee. Kumba has a dedicated Tip-Offs Anonymous (whistleblowing) hotline, independently run by Deloitte.

The ethics function within Kumba is led by the Company Secretary as the Ethics Officer who also serves as the Chairperson of the Management Ethics Committee.

# CORPORATE GOVERNANCE
CONTINUED

During the year under review, the Ethics Officer among other things has ensured that:
- communication on unethical behaviour reporting platforms reached all our employees, suppliers, contractors, communities and majority of our associates
- all reported incidents are thoroughly investigated either internally or by external forensic investigators and closed off within reasonable time
- during the adjudication of cases, there is fairness and transparency
- the results of each investigation are evaluated and an appropriate decision taken to ensure that corrective action addresses control failures

The ethics function is also responsible for the creation, implementation and awareness of the Company's Business Integrity Policy, Code of Conduct and Anti-Corruption Policy.

### Compliance
During the year the compliance function reported into the Risk and Opportunities Committee and the Social, Ethics and Transformation Committee on the level of regulatory compliance of Kumba to the applicable mining and related legislation, regulations, standards, best practices and codes that have been identified to be of importance. Kumba's Regulatory Compliance Department worked together with the Risk Department and the Anglo Business Assurance Services (ABAS) to ensure the alignment of the combined assurance providers' approaches to monitoring and reporting. The alignment assisted the compliance function to identify common risks and the introduction of regulatory monitoring themes during the year. The regulatory compliance controls and monitoring, that were introduced during the previous finance year, were continued during the current financial year. The outcome of the risk-based compliance monitoring of controls and mining activities, resulted in the Company adopting appropriate remedial and/or mitigating steps, where necessary, to comply with the spirit and letter of the findings.

The compliance function reports operationally to the Company Secretary and has regular direct contact with the Chief Financial Officer, Chief Executive and senior management. In addition, the compliance function attends key management and governance meetings and reports into the Risk and Opportunities Committee and the Social, Ethics and Transformation Committee.

### Annual compliance certificate
The annual compliance certificate confirming the Company's compliance with the JSE Listings Requirements for the period was completed and will be submitted to the JSE on 9 April 2019.

### Board induction and training
The Company's induction programme for new directors and training plan for existing Board members aim to holistically address all aspects of being a director, including an understanding of the JSE Listings Requirements, the legal and regulatory framework of the industry, the Kumba operations, and other matters deemed important in ensuring that the directors are able to adequately conduct their fiduciary duties. Each newly appointed director is inducted through a tailor-made "induction plan", which plan specifically focuses on their individual needs and areas of interest.

The training programme is also designed to meet the existing and emerging needs of the Board. For the year under review, the Board undertook training on changes to IFRS standards and Kumba's Remuneration Policy.

### Company Secretary
Ms Celeste Appollis was appointed as Company Secretary on 1 December 2017. Her primary role is to ensure that the Board is cognisant and aware of its fiduciary duties and responsibilities. The Company Secretary plays a key role in providing guidance to Board members on the execution of their duties, keeping the Board aware of relevant changes in legislation and corporate governance best practice. In this regard, a "compliance moment" is a standing item on the Board agenda providing the Company Secretary a platform to share relevant information on a quarterly basis.

As part of her governance duties, she ensured that the Board and Board committee charters and terms of reference were updated. The Company Secretary is also secretary to the Board committees and the Board members have unfettered access to the services of the Company Secretary. The Company Secretary is a prescribed officer.

An annual evaluation of the Company Secretary was carried out by the Nominations and Governance Committee, on behalf of the Board. The results of the evaluation confirmed that the Company Secretary continues to demonstrate the requisite level of knowledge and experience to carry out her duties. The Board is also comfortable that she maintains an arm's length relationship with individual directors and confirms that she is not a director of the Company or any of its subsidiaries.

The Board processes are managed by the Company Secretary with the support of the governance, risk, compliance and ethics functions. The team is adequately resourced and has the necessary skills, experience and attributes to effectively support the Board and its committees in discharging its duties.

**Trading in securities**

Kumba has a defined Trading in Securities Policy, which is in alignment with JSE Listings Requirements, and sets out provisions as to how trading is to be conducted by Kumba's directors, directors of Kumba's major subsidiaries, the Company Secretary and relevant employees when dealing in the Company's securities, to prevent the misuse of inside information.

The Kumba policy and JSE Listings Requirements prohibit directors and employees from trading in any securities relating to Kumba without obtaining prior approval from the Chairperson or other designated directors.

Furthermore, directors are also required to publicly disclose any dealings in the Company's securities by themselves or their associates. The JSE Listings Requirements has defined closed periods that prohibits trading in Kumba securities during the following periods:

- the time period from 1 January every year to the date on which the annual financial results are published (1 January 2018 to 13 February 2018)
- the time period from 1 July every year to the date on which interim financial results are published (1 July 2018 to 24 July 2018)
- any period when Kumba is trading under a cautionary announcement

The prohibition applies equally to the directors, executive and designated employees' associates. At the start of a closed period, directors and employees are formally advised of the commencement and duration of the closed period. In addition, ad hoc trading embargoes are imposed on individuals who possess price-sensitive information of a particular nature, at any given time, if it is the opinion of Kumba that there exists a risk of insider trading.

**Sponsor**

Kumba fully understands the role and responsibilities of the sponsor stipulated in the JSE Listings Requirements and has cultivated a good working relationship with its sponsor, Rand Merchant Bank (RMB). The Company is satisfied that the sponsor has executed its mandate with due care and diligence for the year under review.

# REMUNERATION REPORT

## LETTER FROM THE CHAIRPERSON OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE

**Ntombi Langa-Royds**
Chairperson of the Human Resources and Remuneration Committee

**It gives me pleasure in my first year as Chairperson of the Human Resources and Remuneration Committee (Remco) to introduce this year's Remuneration Report, an important section of Kumba's integrated report that I know is always of particular interest to many of our stakeholders.**

**It has been an honour for me to take on this challenging new role from my predecessor, Allen Morgan, who stepped down from the Kumba Board at the AGM in May 2018, after 12 years on the Board. I wish to offer my profuse thanks to Allen for his leadership, experience and dedicated service, and I look forward to building on Allen's legacy.**

### OUR RESPONSIBILITIES AS REMCO

As members of Remco, it is our responsibility to ensure that Kumba remains a preferred employer, with the right policies and practices in place to attract, motivate and retain the best talent, particularly at the executive and senior management level. As Chairperson of Remco, I am committed to ensuring that Kumba provides competitive remuneration for our executive directors and prescribed officers that is seen as fair and appropriate in the context of general market conditions and overall employee remuneration, and that provides the right incentives to ensure delivery of the Company's strategic objectives over the short, medium and long term. In fulfilling our functions, it is essential that we uphold the principles of accountability, transparency and good governance on remuneration, and that we engage regularly with employees, ensuring that if executives are rewarded well this is reflected appropriately across the Company.

Each year in Remco we review the skills profile of the Company and its leadership team, and where necessary we adjust the remuneration policies and plans accordingly. In February each year, we agree the indicators used to assess the performance of each director, and in November we assess their performance against these identified measures to ensure that their remuneration is linked to their performance over the year. As Remco, we are also responsible for reviewing Kumba's remuneration disclosure annually in the Company's integrated report to ensure that it is accessible, accurate, and complete, and that it is aligned with best practice governance requirements. Through our annual disclosure, we seek to provide sufficient forward-looking information for shareholders to assess the remuneration policy and to approve a resolution in terms of section 66(9) of the Companies Act, 2008.

## KEY DECISIONS AND ACTIVITIES THIS YEAR

Reflecting back on the year's activities on Remco, there are several developments that stand out:

- The first, and for me the most significant, remuneration-related initiative this year was the successful implementation of "Karolo" – Kumba's new broad-based employee share ownership plan (ESOP). This replaced Kumba's Envision phase II ESOP, which was unwound in November 2016. Karolo was communicated to employees during mid-2018, and the first tranche awards were made in August 2018, the first of three award tranches over three years. Beneficiaries who accepted their award also participated in the Company's interim dividend payment, equivalent to the share quantum awarded.
- Given Kumba's strong commitment to safety, we have incorporated a safety modifier into the short-term incentive (STI) calculations for all executive and senior managers (Band 5 and above). This is a penalty modifier, calculated against the baseline of "best-ever safety performance" for the period 2013 to 2017, with zero fatalities as the baseline. The safety adjustment modifier will be applied on the individual performance bonus calculation, as well as on the derived deferred bonus arrangement (DBA) share award calculation for the 2018 performance year.
- During the year we reviewed and adjusted the remuneration packages for both the Chief Executive and Chief Financial Officer. Based on a total reward comparator group benchmark, and under the guidance of an external service provider, Remco approved the alignment of the maximum value potential of the Chief Executive's STI from 70% of annual basic employment cost (BEC) to 100% of annual BEC. As part of Remco's annual salary benchmarking review in November – and informed by benchmarking guidance and the Company's policy – the Committee agreed to align the Chief Financial Officer's total package to the median of his comparator peer group.
- In the context of significant competition for specific technical skills, particularly at our Northern Cape operations, the Committee agreed a once-off retention incentive for key technical employees identified as part of the talent and succession pool, and with strong consideration to the Company's commitment to employment equity and transformation.
- This year, Kumba became the first in the mining industry to support its employees by implementing an education-funding scheme ("Thuto"), funded by a salary sacrifice-based tax concession that incentivises employees to invest in education for their children or other direct family members.

Further context on these and other developments are provided in the full remuneration report, which includes a detailed review of the Company's remuneration philosophy and policy, as well as details on the remuneration of executive directors and prescribed officers for the 2018 reporting period.

## APPRECIATION

I would like to thank my colleagues on the Committee for their support and advice this year in delivering on our mandate, and maintaining Kumba's progressive remuneration policies and practices. On behalf of Remco, I extend our thanks to Themba Mkhwanazi and his team for their work over the year, as well as to those shareholders and proxies who continue to give us useful feedback on our remuneration activities.

I am committed to continue engaging actively with our stakeholders on Kumba's remuneration and I encourage you to please give me any further considered insights on the Company's remuneration practices.

**Ntombi Langa-Royds**
Chairperson of the Human Resources and Remuneration Committee

15 March 2019

# REMUNERATION REPORT

CONTINUED

## SECTION ONE: KEY REMUNERATION DEVELOPMENTS AND ACTIVITIES OF REMCO

### KEY DECISIONS IMPLEMENTED DURING 2018

- **Incorporation of a safety modifier into the Short-Term Incentive (STI) calculations for Executive and Senior Management:** The safety adjustment modifier is a penalty modifier that will be calculated against the baseline of "best-ever safety performance" for the period 2013 to 2017. The baseline for Kumba is zero fatalities. The safety adjustment modifier will be applied on the individual performance bonus calculation, as well as on the derived Deferred Bonus Arrangement (DBA) share award calculation for all Band 5 and above employees for the 2018 performance year.
- **Review and alignment of the Chief Executive Officer's STI quantum:** Based on a total reward comparator group benchmark, and under the guidance of an external service provider, the Committee approved the alignment of the maximum value potential of the Chief Executive's short-term incentive from 70% of annual basic employment cost (BEC) to a 100% of annual BEC.
- **Review and market adjustment of the Chief Financial Officer's remuneration package:** As part of the annual salary benchmarking review performed by the Committee during November, specific consideration was given to the total reward package of the Chief Financial Officer, compared to his mining industry comparator peer group review. Based on the benchmarking guidance and aligned with the Company's policy, the Committee decided to align the package of the Chief Financial Officer to the median of his comparator peer group.
- **Implementation of "Karolo" broad-based ESOP scheme:** Kumba's Envision phase II ESOP was unwound in November 2016 and the Committee commissioned the design of a replacement ESOP scheme. The replacement scheme, branded as Karolo (meaning "Part of"), was communicated to employees during mid-2018. The first tranche awards were made on 6 August 2018, subject to a 30-day acceptance period. Beneficiaries who accepted their award also participated in the Company's interim dividend payment, equivalent to the share quantum awarded. The 2018 Karolo award is the first of three award tranches, over three years.
- **Multi-year wage agreement (2017 to 2020):** In 2017, a multi-year collective bargaining agreement was concluded between Kumba and the representative trade unions, for the period 1 July 2017 to 30 June 2020. The agreement regulates the adjustment percentage; for 2018, a total negotiated increase of 7.1% was granted, applicable to basic salaries, housing allowances, 13th cheques and fixed allowances for all bargaining unit employees.
- **Introduction of "Thuto" tax concession on sponsored education:** In early 2018, Kumba saw an opportunity to support our employees by implementing Thuto, an education-funding scheme, funded by a salary sacrifice-based tax concession. The Company became the first in the mining industry to introduce this benefit to its employees and add significant value to our employee value proposition (EVP) by incentivising employees to invest in their children and/or direct family's education.
- **Talent retention award for key technical staff:** Scarce skills and fierce competition for specific technical skills, specifically in the Northern Cape province, prompted the Committee to award a once-off retention incentive for key technical employees with scarce skills and/or strong performance, having been identified as part of the talent and succession pool. Employment equity and transformation also formed a strong consideration in the identification of the technical talent for retention.

## SECTION TWO: REMUNERATION PHILOSOPHY AND POLICY

### THE HUMAN RESOURCES AND REMUNERATION COMMITTEE OF THE BOARD (REMCO)

**Role of Remco and terms of reference**

Remco guides the Board by ensuring that Kumba's remuneration-related decisions and policies are aligned to its overall goals, while remaining fair and equitable both to employees and shareholders. The Committee's interests and activities are geared towards developing and maintaining a strong human resources environment. The Remco terms of references can be accessed on Kumba's website:

https://www.angloamericankumba.com/investors/corporate-governance.aspx

For details on the membership of Remco and attendance of meetings refer page 93 of the governance section.

***Remuneration philosophy***

The principles of our remuneration philosophy serve as a foundation to our employment ethos and underpin our company strategy. The objectives of our reward strategy are as follows:

- maintain Kumba as a preferred employer
- attract and retain top talent and critical skilled employees by providing adequate and fair compensation structures and reward schemes
- engage continuously with employees, motivating them towards a higher degree of commitment that will translate into increased levels of individual and combined performance and productivity
- align with the market median in respect of fixed pay, with variable performance-related pay, both short and long term, included in the total reward offering to ensure market competitiveness
- ensure the fair, equitable and consistent application of our remuneration principles and policies, guided by the King IV principles relating to fair and responsible remuneration
- allow employees to share in the performance and success of the business

Remco is firmly committed to its overarching responsibility of ensuring that the principles of accountability, transparency, sustainability and good governance are enacted in all remuneration-related matters. This includes the critical link between executive remuneration and performance against set strategic objectives, with the ultimate aim of creating executive engagement and shareholder value.

In the event that the remuneration policy or implementation report, or both, have been voted against by 25% or more of the voting rights exercised by shareholders in the non-binding advisory vote, the Board will delegate representatives to actively engage with the majority shareholders to address and conciliate the substantiating objections and concerns, and to ameliorate the policy and/or report as appropriate, taking cognisance of the shareholder feedback and proposals resulting from the engagement and as approved by the Board.

**Fair and responsible remuneration**

The main principles and practices that drive our commitment to fair and responsible remuneration are:

- adhering to legislative requirements and prescriptions relevant to remuneration and benefits
- undertaking an annual, external benchmark of our remuneration package competitiveness across grading and job function/category
- reviewing and adjusting accordingly any salary anomalies lying below the comparable market median within a predetermined threshold
- applying structured policies on appointment and salary movement (promotions, demotions and lateral moves), while linking salaries to functional peer-group medians to address equal pay for equal work and any income disparities based on gender, race or other demographics
- ensuring that all permanent and fixed-term employees in the Company are eligible to participate in a short-term incentive scheme, as appropriate
- designing and executing HR strategic initiatives to enhance the overall employee work experience and improve the EVP offering to our employees

# REMUNERATION REPORT
## CONTINUED

### Elements of remuneration

The key elements of our remuneration framework and structure, which guides payments to all employees, are shown below, with a focus on executive directors and prescribed officers. The following colour scheme is employed throughout the remuneration report to denote the following components pertaining to the composition of our remuneration framework:

***Table A – remuneration framework composition***

| | TOTAL GUARANTEED PAY (TGP) | | |
|---|---|---|---|
| | BASE SALARY | STANDARD BENEFITS | CONDITIONAL BENEFITS |
| **Strategic intent** | • Attract people with the necessary competencies (knowledge, skill, experience and attitude) to add value and discretionary effort to our business<br>• Retain competent, high-performing employees who are engaged and live the Company values<br>• Ensure that our pay is competitive in the industry and market-related<br>• Comply with legislative provisions and negotiated contractual commitments<br>• Support high-performing individuals and teams by aligning reward with performance<br>• Reinforce and enhance the principle that employees are key assets of our company | | |
| **Delivery mechanism** | Monthly payments | • Employer contribution to selected retirement funds<br>• Subsidised medical aid<br>• Life and disability insurance<br>• Housing allowances and five-year mortgage subsidy plan (bargaining unit employees only)<br>• Study assistance for formal education | • Seven-day production allowance<br>• Shift allowance<br>• Standby allowance<br>• Call-out allowance<br>• Government certificate of competency (GCC) allowance<br>• Occupational medical practitioner (OMP) allowance<br>• Position allowance<br>• Artisan allowance<br>• Acting allowance |
| **Eligibility** | All our employees | | • Job-specific requirements<br>• Scarce skills<br>• Legislative requirements |

<table>
<tr><th colspan="7">VARIABLE PAY (VP)</th></tr>
<tr><th colspan="4">SHORT-TERM INCENTIVES</th><th colspan="3">LONG-TERM INCENTIVES</th></tr>
<tr><th>PRODUCTION BONUS</th><th>GAIN SHARE BONUS</th><th>DEFERRED BONUS</th><th>PERFORMANCE BONUS</th><th>EMPLOYEE SHARE OWNERSHIP SCHEME (ESOP)</th><th>FORFEITABLE SHARE PLAN (FSP)</th><th>LONG-TERM INCENTIVE PLAN (LTIP)</th></tr>
<tr><td colspan="4">• Aimed to align the achievement of production, safety and productivity and overall equipment effectiveness (OEE) targets at an operational level<br>• Encourage the achievement of stretch targets at a company, business unit, functional and individual level<br>• Align management and shareholder interest<br>• Allow our employees to participate in the gains attributed to strong to exceptional Company performance during the financial year<br>• Longer-term retention (deferred bonus component)</td><td colspan="3">• Retention of skills and direct alignment with shareholder interest<br>• Reward employees for their contribution to long-term, sustainable Company performance<br>• Attract and retain key employees</td></tr>
<tr><td>Cash bonus paid on a quarterly or bi-annual basis, depending on the arrangement pertaining to each operation or site.</td><td>Top-up cash bonus paid out on an incremental scale to a maximum of one month's basic employment cost only on achieving and exceeding the Company's annual EBIT target. The bonus is paid out in March of the following year, following the announcement of the annual results.</td><td>The incentive is delivered in two parts:<br>i. an annual cash incentive; and<br>ii. a deferred cash bonus with a holding period of one year before vesting.</td><td>The incentive is delivered in two parts:<br>i. an annual cash incentive; and<br>ii. deferred bonus shares (DBA scheme) with a holding period of three to five years (for the Chief Executive) before vesting.</td><td>Units awarded in terms of the rules of the ownership plan.</td><td>Delivered in forfeitable shares with a holding period of three years before vesting.</td><td>Delivered in conditional shares with specific performance conditions attached to the vesting quantum after a period of three years. A further two-year holding period applies after vesting, subject to a malus condition.</td></tr>
<tr><td>Bargaining unit employees</td><td>Bargaining unit employees</td><td>Middle management level employees (Global Banding Framework 6/12)</td><td>Senior management and above</td><td>Bargaining unit employees and front-line management level employees</td><td>Prescribed officers and selected senior managers, excluding executive directors</td><td>Executive directors</td></tr>
</table>

# REMUNERATION REPORT

CONTINUED

## EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

When assessing the performance of the Company and its prescribed officers, the Committee is mindful of its obligation to our shareholders, as elaborated in our remuneration framework. The remuneration of executive directors and prescribed officers consists of fixed and variable components that are designed to ensure a substantial portion of the remuneration package is linked to the achievement of the Company's strategic objectives, thereby aligning incentives to the creation of sustainable shareholder value.

### Fixed remuneration

The total package per role is compared to levels of pay at the market median in companies of comparable size and complexity within the industry sector. Annual salary benchmark reviews are conducted to ensure market competitiveness.

The Company contributes 12% of pensionable salary to approved retirement funds. Medical aid is subsidised at 60% of the contribution to a maximum amount determined by market comparisons. Risk insurance benefits include life cover and death-in-service benefits, subject to the rules of the approved Kumba retirement funds. The Company provides additional death and disability cover to employees through its insurance risk and compensation for occupational injuries and diseases (COID) underwriting policies.

### Variable remuneration

The variable remuneration of the executive directors and prescribed officers consists of cash (annual performance bonus) and equity instruments (deferred bonus and long-term incentives) applied in combination and with the quantum and conditions appropriate to the scope of responsibility and contribution to operating and financial performance of the respective role.

The variable remuneration components of our remuneration framework can be summarised as follows for our executive directors and prescribed officers:

| VARIABLE PAY COMPONENT | INSTRUMENT TYPE | PAYMENT/VESTING | ELIGIBILITY |
|---|---|---|---|
| **Performance bonus** | Cash | Annual cash payment in March | Executive directors, prescribed officers, senior and middle management employees |
| **Deferred bonus arrangement (DBA)** | Restricted equity | Unconditional vesting, subject to employment condition, after three to five years (five years for the Chief Executive Officer only) | Executive directors, prescribed officers and senior management employees |
| **Deferred bonus arrangement (DBA)** | Cash | Cash deferred for one year | Middle management employees |
| **Forfeitable share plan (FSP)** | Restricted equity | Unconditional, subject to employment condition, vesting after three years | Prescribed officers and qualifying senior managers (general management level employees) |
| **Long-term incentive plan (LTIP)** | Restricted equity | Conditional vesting after three years | Executive directors |

## EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' 2018 REMUNERATION POLICY

The following section provides a comprehensive overview of the executives directors' and prescribed officers' remuneration policy applicable to the 2018 financial year.

### Elements of remuneration

The key elements of our remuneration framework and structure, which guides payments to all employees, are shown below, with a focus on executive directors and prescribed officers. The following colour scheme is employed throughout the remuneration report to denote the following components pertaining to the composition of our remuneration framework:

***Table B – remuneration framework composition***

| | FIXED REMUNERATION | | VARIABLE REMUNERATION | | | |
|---|---|---|---|---|---|---|
| | TOTAL GUARANTEED PAY (TGP) | | SHORT-TERM INCENTIVES | | LONG-TERM INCENTIVES | |
| | BASE SALARY | STANDARD BENEFITS | ANNUAL PERFORMANCE BONUS | DEFERRED BONUS ARRANGEMENT (DBA) | FORFEITABLE SHARE PLAN (FSP) | LONG-TERM INCENTIVE PLAN (LTIP) |
| Purpose and link to remuneration strategy | Market-related level of remuneration differentiated on the specific requirements of the role, level of complexity and span of control | Benefits appropriate to the market and contributing to the health and wellbeing of employees in support of our employee value proposition (EVP) | The incentive is designed to reward and motivate the achievement of agreed Company safety, financial, strategic and operational objectives, linked to key performance areas within cited employees' respective portfolios. Through the deferred bonus arrangement, long-term sustained performance is encouraged | | Retention and motivation of employees who are key to the delivery of the Company's long-term strategy | Motivate executive directors to achieve the three-year strategic objectives of the Company pertaining to relative total shareholder return (TSR) and a balanced scorecard of performance metrics, thus aligning executive and shareholder interests. The additional two-year holding period, subject to a malus condition, ensures an accentuated level of accountability and corporate sustainability |
| Methodology | Base salary, as part of total guaranteed pay, is reviewed annually to ensure market competitiveness within the mining industry, as well as nationally. Kumba applies annual salary adjustment differentiation linked to individual performance (as per the Anglo American plc performance standard methodology) during the preceding performance year and is under no obligation to increase base salary | The standard benefits, as part of the total guaranteed pay fixed component of remuneration, are as follows:<br>• Monthly employer retirement fund contribution to selected retirement funds equal to 12% of pensionable earnings<br>• Disability cover included in the monthly employer retirement fund contribution<br>• Personal accident, life and disability cover as well as travel cover<br>• Monthly medical aid subsidy equivalent to the smallest of 60% of the monthly contribution or an annually reviewed subsidy cap<br>• Study assistance for position-related formal, further education for qualifying employees | An annual cash incentive, determined in accordance with the Anglo American plc performance standard methodology, payable at the end of March of the year following the end of the financial year. The quantum of the annual incentive is determined as the multiple of the grading specific on-target bonus percentage (between 20% and 30% of annual basic employment cost), the business multiplier (determined by the overall Company performance within the Anglo American plc group during the performance year) and the individual performance modifier (IPM) linked to individual performance against a set performance contract for the performance year under review. The IPM is also calibrated against peer performance and individual behaviour against the group values | A deferred bonus arrangement in which a proportion of the cash incentive is matched and awarded as:<br>i. 140% (150% for the Chief Executive) of the cash incentive in deferred shares, which is awarded after the end of the relevant financial year. These bonus shares are linked to performance during the financial year in the same manner as the annual cash incentive, and are subject to a three to five-year (only for the Chief Executive) holding period before vesting, during which it remains restricted. This is applicable to executive directors, prescribed officers and senior management<br>ii. Participants earn dividends on shares awarded under the DBA. | Forfeitable shares are awarded annually to qualifying prescribed officers and senior management (general management level employees) based on achieving an individual performance rating of 3 (having satisfactorily met all performance objectives for the year under review) or above on a five point ascending performance scale. The quantum of the award (face value) is 40% of annual basic employment cost for all qualifying employees and 50% for the Chief Operating Officer position. The restricted share award vests after a period of three years. Forfeitable share awards will be forfeited if the participant leaves employment during the restricted period (except if the participant is a 'good leaver' under the scheme rules). Participants earn dividends on shares awarded under the FSP | The LTIP consists of conditional awards of shares vesting after three years, subject to the achievement of stretched performance conditions. Full voting and dividend rights will only accrue from the vesting date. The LTIP performance measure comprises:<br>• 70% relative total shareholder return (TSR)<br>• 30% balance scorecard (which consist of production unit cost, rehabilitation and mine closure, TRCFR, attributable ROCE and environmental incidents) |

# REMUNERATION REPORT
## CONTINUED

***Table B – remuneration framework composition*** *continued*

| | FIXED REMUNERATION | | VARIABLE REMUNERATION | | | |
|---|---|---|---|---|---|---|
| | TOTAL GUARANTEED PAY (TGP) | | SHORT-TERM INCENTIVES | | LONG-TERM INCENTIVES | |
| | BASE SALARY | STANDARD BENEFITS | ANNUAL PERFORMANCE BONUS | DEFERRED BONUS ARRANGEMENT (DBA) | FORFEITABLE SHARE PLAN (FSP) | LONG-TERM INCENTIVE PLAN (LTIP) |
| **Methodology** continued | | | | iii. 70% of the cash incentive in deferred cash, which is awarded after the end of the relevant financial year. The deferred cash is linked to performance during the financial year in the same manner as the annual cash incentive, and is subject to a one-year holding period before vesting, during which it remains restricted. This is applicable to middle management level employees<br><br>The deferred bonus shares as well as deferred cash will be forfeited if the participant leaves employment during the restricted period (except if the participant is a 'good leaver' under the DBA scheme rules). Participants earn dividends on the deferred bonus shares | | The relative TSR is further split into a 35% weighted JSE/ FTSE mining index (this index is compiled by the FTSE but consists of JSE mining companies only) and 35% global iron ore peer group. The global iron ore companies comparator group comprises IRC Limited (Hong Kong), Hengshi Mining Investments Limited (Cayman Islands), Shougang Hierro Peru S.a.a. (Peru), Honbridge Holdings Limited (Cayman Islands), Ferrexpo plc (United Kingdom), EVRAZ plc (United Kingdom), Companhia Siderúrgica Nacional (Brazil), NMDC Limited (India), Fortescue Metals Group Limited (Australia) and Vale S.A. (Brazil). Targets are approved by Remco for each allocation and no re-testing of performance conditions is allowed. Shares that do not vest after three years in terms of the performance conditions will lapse. Details of the 2018 performance targets and vesting schedule are presented in the accompanying **Table C** |

*Table B – remuneration framework composition* continued

| | FIXED REMUNERATION | | VARIABLE REMUNERATION | | | |
|---|---|---|---|---|---|---|
| | TOTAL GUARANTEED PAY (TGP) | | SHORT-TERM INCENTIVES | | LONG-TERM INCENTIVES | |
| | BASE SALARY | STANDARD BENEFITS | ANNUAL PERFORMANCE BONUS | DEFERRED BONUS ARRANGEMENT (DBA) | FORFEITABLE SHARE PLAN (FSP) | LONG-TERM INCENTIVE PLAN (LTIP) |
| **Opportunity and maximum limit** | Base salary is linked to the annual benchmarking of the total reward package against the market median of companies of comparable size and complexity within the industry. Annual differentiated performance adjustments can range from 0% for non-performing individuals to 1% above average inflation (CPI) for exceptional value creation/performance | The benefits have been designed to support the Company's employee value proposition to a competitive remuneration framework in the market | The values of the annual performance incentive for executive directors and prescribed officers are:<br><br>**Chief Executive:**<br>The Chief Executive's annual incentive is determined by measuring performance against overall company targets (75%) and specific, individual key performance measures (25%) approved by the Board. The cash element of the incentive is capped at 100% of base salary<br><br>**Chief Financial Officer:**<br>The Chief Financial Officer participates in the Anglo American plc group performance management standard. This is based on a maximum on-target cash bonus percentage of 30%, an individual performance modifier (IPM) and a business multiplier (BM) that is determined at the end of the year, taking into account Kumba business performance against the targets set for the year<br><br>**Prescribed officers:**<br>As with the case of the Chief Financial Officer, prescribed officers participate in the Anglo American plc group performance management standard. This is based on a maximum on-target cash bonus percentage of 25% or 30% (Chief Operating Officer) of base salary, an IPM and a BM that is determined at the end of the year taking into account Kumba business performance against the targets set for the year | **Executive directors, prescribed officers and senior management:**<br>140% (150% for the Chief Executive) of the cash incentive in deferred shares, which is awarded after the end of the relevant financial year<br><br>**Middle management:**<br>70% of the cash incentive in deferred cash, which is awarded after the end of the relevant financial year | The FSP award quantum is fixed at 40% of the participant's annual base salary (face value of share award) for qualifying prescribed officers and senior managers. The only exception is for the Chief Operating Officer position for which the quantum is fixed at 50% of annual base salary | The maximum annual face value of the LTIP award is 150% of base salary for the Chief Executive and 100% of base salary for the Chief Financial Officer |

# REMUNERATION REPORT

## CONTINUED

***Table B – remuneration framework composition*** *continued*

| | FIXED REMUNERATION | | VARIABLE REMUNERATION | | | |
|---|---|---|---|---|---|---|
| | TOTAL GUARANTEED PAY (TGP) | | SHORT-TERM INCENTIVES | | LONG-TERM INCENTIVES | |
| | BASE SALARY | STANDARD BENEFITS | ANNUAL PERFORMANCE BONUS | DEFERRED BONUS ARRANGEMENT (DBA) | FORFEITABLE SHARE PLAN (FSP) | LONG-TERM INCENTIVE PLAN (LTIP) |
| **Performance conditions** | Linked to the individual performance objectives or key performance indicators contracted for the performance year, aligned with the business strategy and operational objectives as approved by the Board and cascaded through the business | N/A | Managers within Kumba are measured on business-specific strategic value drivers aligned to operational and/or mine-specific strategic priorities as approved by the Board. In 2018 emphasis was placed on the following:<br>• leading and lagging safety indicators including safety leadership<br>• total production and compliance to mine plan<br>• cost optimisation (unit cost)<br>• financial performance: EBIT, operating free cash flow, earnings per share | | The participant needs to achieve an individual performance rating of 3 (having satisfactorily met all performance objectives for the year under review) or above on a five-point ascending performance scale to qualify for an award pertaining to the prior performance year | Two weighted performance metrics measured over a three-year period apply to each award being:<br>• 70% relative total shareholder return (TSR)<br>• 30% balance scorecard (which consist of production unit cost,rehabilitation and mine closure, TRCFR, attributable ROCE and environmental incidents )<br><br>The relative TSR is further split into a 35% weighted JSE/ FTSE mining index (this index is compiled by the FTSE but consists of JSE mining companies only) and 35% global iron ore peer group<br><br>**The threshold and stretched targets for the 2018 LTIP award as approved by the Remco is presented in the accompanying Table C** |
| **Eligible participants** | Executive directors, prescribed officers, senior and middle management employees | | Executive directors, prescribed officers, senior and middle management employees | | Prescribed officers and qualifying senior managers (general management level employees) | Executive directors |
| **Company limits on equity awards** | N/A | | N/A | The aggregate limit for the DBA, FSP and LTIP is 10% of the issued share capital. Shares are purchased in the market and not issued for the purpose of settlement of the DBA, FSP or LTIP. The current level of outstanding shares is equal to 0.823% of total issued share capital | | |

*Table B – remuneration framework composition* continued

| | FIXED REMUNERATION | | VARIABLE REMUNERATION | | | |
|---|---|---|---|---|---|---|
| | TOTAL GUARANTEED PAY (TGP) | | SHORT-TERM INCENTIVES | | LONG-TERM INCENTIVES | |
| | BASE SALARY | STANDARD BENEFITS | ANNUAL PERFORMANCE BONUS | DEFERRED BONUS ARRANGEMENT (DBA) | FORFEITABLE SHARE PLAN (FSP) | LONG-TERM INCENTIVE PLAN (LTIP) |
| Policy changes in 2018 | None | None | None | | None | The threshold vesting quantum of the LTIP conditional share award of 30% has been aligned with the Anglo American plc group practice of 25% vesting at threshold and was agreed by the Remco and Nominations Committees for the 2018 awards onward. The threshold and stretched targets on the attributable ROCE performance indicator of respectively 11% and 31% was agreed by the Remco in 2018. The targets were previously 3% and 13% for threshold and stretch respectively. The increase in threshold and stretch ROCE targets for 2018 can be attributed to an improved ROCE realisation potential anticipated over the performance period (2018 to 2019), based for the most part on the improvement of the iron ore market conditions combined with a number of business improvement initiatives initiated over the past two years. The global iron ore comparator group was reviewed for 2018 to maintain suitability under dynamic market conditions. Three additional companies were added to the comparator (10 companies in total) and Atlas Iron (Australia), Mount Gibson (Australia), China Vanadium (China) and Rio Tinto Ltd (Australia) have been replaced |

# REMUNERATION REPORT

## CONTINUED

***Table C – 2018 LTIP award performance conditions, targets and vesting schedule***

| PERFORMANCE INDICATOR | % OF ALLOCATION SUBJECT TO INDICATOR | PERFORMANCE INDICATOR | % OF ALLOCATION SUBJECT TO INDICATOR | BELOW THRESHOLD TARGET | THRESHOLD TARGET | STRETCH TARGET |
|---|---|---|---|---|---|---|
| **Total Shareholder Return (TSR) achieved** | **70%** | Global iron ore comparator group | 50% | Below median TSR | Median TSR | Upper quartile TSR ranking |
| | | Vesting schedule | | 0% | 25% | 100% |
| | | JSE/FTSE Mining index | 50% | Below the performance index | Performance at the index | Performance at the index + 9% |
| | | Vesting schedule | | 0% | 25% | 100% |
| **Balance Scorecard** | **30%** | Production unit cost | 16.66% | >100% | 100% | 90% |
| | | Vesting Schedule | | 0% | 25% | 100% |
| | | Provision for rehabilitation and mine closure | 16.66% | N/A | 100% | N/A |
| | | Vesting Schedule | | N/A | 100% | N/A |
| | | Return on Capital Employed (ROCE) | 33.33% | <20% | 20% | 25% |
| | | Vesting Schedule | | 0% | 25% | 100% |
| | | Total Recordable Case Frequency Rate (TRCFR) | 16.66% | >100% | 100% | 95% |
| | | Vesting Schedule | | 0% | 25% | 100% |
| | | Level 4 and 5 environmental incidents | 16.66% | N/A | 100% | N/A |
| | | Vesting Schedule | | N/A | 100% | N/A |

**Executive directors' and prescribed officers' contracts of employment**
Executive directors and prescribed officers are not employed on fixed-term contracts but have standard employment contracts with notice periods of up to six months. The Chief Executive's contract has a restraint of trade provision for a period of 12 months after the termination of his employment. There are no additional payments for any of the restraint obligations as the Chief Executive's remuneration is deemed fair and reasonable compensation inclusive of the restraint obligations.

There is no restraint of trade provisions applicable to the Chief Financial Officer and prescribed officers. No restraint payments have been made during this year. There are no change of control provisions or any provisions relating to payment on termination of employment.

**Appointments of executive directors and prescribed officers**
Appointments are subject to approval by the Board and are governed by the business integrity policy.

### NON-EXECUTIVE DIRECTORS' FEES

Non-executive directors do not have employment contracts with the Company or participate in any of the Company's incentive plans. Non-executive directors are subject to retirement by rotation and re-election by shareholders in accordance with the Memorandum of Incorporation of the Company.

Recommendations on the level of fees payable to non-executive directors is made by Remco and is approved by the shareholders. Non-executive directors' remuneration is determined through the benchmarking of market data, based on a survey of a representative comparator group of JSE-listed companies, as conducted by an independent external service provider. Fees are not dependent on meeting attendance. There are no other supplementary fees payable.

Annual fees payable to non-executive directors were approved by shareholders at the AGM on 11 May 2018. The fees are as follows:

**2018 fees per annum (Rand)**

| Capacity | Chairperson | Member |
|---|---|---|
| Board of directors | **1,422,107** | **235,125** |
| Audit Committee | **313,815** | **156,081** |
| Risk and Opportunities Committee | **313,815** | **156,081** |
| Social, Ethics and Transformation Committee | **313,815** | **156,081** |
| Human Resources and Remuneration Committee | **313,815** | **156,081** |
| Nominations and Governance Committee | **N/A*** | **156,081** |

* The Nominations and Governance Committee is chaired by the Chairperson of the Board and there are no additional fees paid for this responsibility.

## SECTION THREE: DISCLOSURE ON IMPLEMENTATION OF POLICIES FOR THE FINANCIAL YEAR

### GUARANTEED PAY ADJUSTMENTS

**Average rate of increase for 2018**

A market adjustment mandate of 5.5% on the cost to company (CTC – base salary plus employer retirement fund contribution) was approved by the Remco for the non-bargaining category employees, in line with our mining peers and national benchmarks conducted by an external, third-party service provider. The approved mandate was further differentiated based on individual performance ranging from a 0% adjustment for non-performing employees to 6.5% for employees with exceptional value delivery and performance during the prior performance year (2017). An additional discretionary 1% mandate was approved to address individuals notably below the market median, taking cognisance of their performance (performance rating of 3 and above) during the prior two performance years.

The total reward (TR) remuneration of the executive directors are benchmarked against a comparator peer group of JSE-listed companies of similar size and nature of operations and undertaken by a third-party, external service provider. The criteria utilised in the determination of an appropriate peer group were total assets under control, annual turnover and number of employees.

Based on the recommendations of the benchmark, the Committee adjusted the cost to company (CTC) of the Chief Executive Officer, to better align his total reward with the peer group median. The Committee also approved the alignment of the maximum value potential of the Chief Executive's short-term incentive from 70% of annual basic employment cost (BEC) to a 100% of annual BEC.

A total salary adjustment mandate of 15% for the Chief Executive, for 2018, was effected as follows:

- a 6.5% increase based on the annual inflation adjustment applied to exceptional performing employees and which was effective 1 January 2018;
- a further retrospective top up of 7.98% implemented in March 2018 (retrospective to 1 September 2017).

An annual salary benchmarking review, conducted by a third-party external service provider, at the request of Committee was completed in November 2018. Specific consideration was given to the total reward package of the Chief Financial Officer, compared to his mining industry comparator peer group. The Committee, based on the benchmarking guidance, decided to align the remuneration package of the Chief Financial Officer to the median of his comparator peer group. A two tiered salary market adjustment over a two-year period was proposed for the Chief Financial Officer, with a first salary market adjustment increment of 12.5% effective as of 1 December 2018.

In 2017, a multi-year collective bargaining agreement was concluded between Kumba and the representative trade unions for the period 1 July 2017 to 30 June 2020. Our three recognised trade unions, being the National Union of Mineworkers (NUM), Solidarity and the Association of Mineworkers and Construction Union (AMCU), together with management, concluded the agreement which regulates the annual adjustment percentage. A new, multi-year wage agreement ranging between a 10% increase on the lowest level and 7% on the highest level of the bargaining category, effective from 1 July 2017 until 30 June 2020 was agreed and signed on 12 September 2017, with 2018 being the second year of implementation of this agreement.

### ANNUAL PERFORMANCE INCENTIVE OUTCOMES – LINKED TO UNDERLYING PERFORMANCE (BUSINESS AND INDIVIDUAL)

**Safety performance**

Safety still remains our first priority. We kept our commitment on safety and remained fatality-free with significant improvement across multiple safety indicators. Throughout 2018, we continued to roll out our fatalities elimination framework which embeds the principles of safe behaviour. Instilling a culture that makes safety a key value is what makes the difference, and this is demonstrated by our track record of remaining fatality-free since 2016. To further emphasise that safety is non-negotiable, Kumba has linked safety to business performance through its incentive structure to recognise and reward a positive safety culture. High potential incidents, which is a leading indicator of fatalities reduced by 67% to 7 (2017: 21). Of the lagging indicators, the total recordable case frequency rate declined to 1.80 (2017: 3.23) and lost-time injuries remained similar to 2017 at 21. This has resulted in encouraging improvements reflected in our leading indicator reporting. Kumba has further entrenched its commitment to safety and its direct relation to the performance incentives of its senior and executive management, by implementing a safety adjustment penalty modifier on fatalities. This ranges from 10% to 20%, dependent on the line-of-sight per incident and is effective from 2018.

**Production performance**

Total tonnes mined increased 8% to 292.5 Mt with operating efficiency improving from 58% last year to 65% of benchmark in 2018. Total production reduced by 4% to 43.1 Mt, as planned, within our guidance of 43 to 44 Mt. At the mine level, Sishen delivered 29.2 Mt and Kolomela 13.9 Mt of production with ongoing improvements in productivity, resulting in the reduction of unscheduled work by up to 40%. Sishen and Kolomela achieved an 91% and 80% mine-to-plan compliance, respectively. Planned production was reduced to offset elevated stock levels arising from rail constraints.

Total sales volumes were well within guidance of between 42 Mt and 44 Mt at 43.3 Mt (2017: 44.9 Mt) although export sales volumes decreased by 4% to 40.0 Mt (2017: 41.6 Mt). The decrease was as a result of a combination of missed sales opportunities due to

# REMUNERATION REPORT
## CONTINUED

derailments experienced, single loading due to the six-week scheduled refurbishment of a ship loader, and temporary closure of the IOEC due to a truck colliding with a railway bridge in November 2018.

Our flexible production enabled a timeous response to the rail constraints and to market demand for premium quality products. Planned plant production volumes were reduced to mitigate elevated levels of finished stock and the quality of the product portfolio improved to benefit from the quality and lump premium.

Total tonnes mined at Sishen increased by 11% to 220.5 Mt (2017: 199.5 Mt), following a 9% increase in fleet productivity. Our strategy to maximise value of tonnes mined resulted in total production decreasing to 29.2 Mt (2017: 31.1 Mt). Consistent with the mine plan, the stripping ratio increased to 4.7 compared to 4.3 in 2017 resulting in the amount of waste mined increasing to 182 Mt (2017: 162 Mt).

Total tonnes mined at Kolomela increased by 0.4% to 72.0 Mt (2017: 71.8 Mt), with production remaining flat at 13.9 Mt and waste stripping increasing to 56.0 Mt (2017: 55.6 Mt). Due to rail constraints and sufficient finished stock levels at the mine, additional maintenance was undertaken on the DMS modular plant to ensure optimal performance through life-of-mine. Good productivity and efficiency gains were achieved with the 996-waste shovel tempo increasing by 36%. Kolomela achieved an 80% mine-to-plan compliance.

**Cost containment**

Operating expenses decreased marginally to R29.4 billion compared to R29.8 billion (excluding the reversal of the Sishen impairment) 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.

Unit cash costs at Sishen increased to R290/tonne (2017: R287/tonne). This was primarily due to lower production volumes and above inflation mining-related cost escalation including diesel prices and higher stripping movement, 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 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.

**Business and Operating Model**

The Kumba Operating Model ensures the stability of our operations, a reduction in variability and enhanced efficiency, while fostering continuous improvement. At our Sishen operation, our focus was on the stabilisation of the work management processes in the mining and truck maintenance areas and implementation at the processing plant and drilling maintenance sections. In the mining areas, work management enables a fully integrated view of all activities in the pit and ensures greater adherence to the mining schedule. The most visible and immediate impact was the reduction of unscheduled work by up to 40% in some areas with Sishen achieving an 91% mine-to-plan compliance. At Kolomela, this led to improved work management practices in mining, mobile equipment maintenance and the processing plant.

With rail logistics becoming the overall value chain constraint, focus was placed on improving the train load out and turnaround times at our mines, as well as at reducing the variability of individual wagon loads.

The utilisation of technology as an enabler of safety and strategic delivery. The roll out of additional auto-drills has enabled a non-interrupted drilling cycle. The implemented truck payload optimisation schedule and installation of advanced control rooms to monitor and manage production in real-time are geared toward increasing productivity rates. These initiatives and our continuous drive to improve productivity and efficiency have resulted in efficiency improving to 65% of the OEE (overall equipment efficiency) benchmark.

**Financial performance**

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

Stakeholder value was created 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 of R4.5 billion was incurred: R2.3 billion on stay-in-business (SIB) activities, R1.7 billion on deferred stripping, and R500 million on expansions, which comprised R200 million on the Dingleton project and R200 million on the second Sishen modular plant, commissioned in November 2018.

## CHIEF EXECUTIVE PERFORMANCE OVERVIEW – TM MKHWANAZI – 1 JANUARY TO 31 DECEMBER 2018

| 2018 key result area | KPI weighting | Performance level achieved: Below threshold | Between threshold and target | Between target and stretch | Stretch and exceeding | Linking 2018 performance to reward – commentary on key performance outcome |
|---|---|---|---|---|---|---|
| **Anglo American group performance (10%)** | | | | | | |
| EPS (CPS) Anglo American Group | 5% | | ● | | | Above threshold but below target (1.5% rating |
| Operating free cash flow (US$m) | 5% | | | | ● | Exceeded stretch target (5% rating) |
| **Kumba Iron Ore performance (65%)** | | | | | | |
| Production (Mt) | 10% | | ● | | | Above threshold but below target (5.2% rating) |
| Sishen waste (Mt) | 15% | | | ● | | Above target but below stretch (10% rating) |
| Kolomela waste (Mt) | 10% | | ● | | | Above threshold but below target (6% rating) |
| EBIT (US$m) | 20% | | | | ● | Exceeded stretch target (20% rating) |
| Sishen unit cash cost (R/tonne) | 5% | | | | ● | Exceeded stretch target (5% rating) |
| Kolomela unit cash cost (R/tonne) | 5% | | ● | | | Above threshold but slightly below target (3% rating) |
| **Personal performance (25%)** | | | | | | |
| Safety | 10% | | | ● | | Between target and stretch (9.5% rating) |
| Business development | 5% | | | ● | | Between target and stretch (3.5% rating) |
| Full potential transformation – Tswelelopele | 5% | | | ● | | Between target and stretch (4.5% rating) |
| Strategic development – Northern Cape | 5% | | | | ● | Exceeded stretch target (5% rating) |

| SSD* modifier (±10%) | KPI weighting | |
|---|---|---|
| Fatal injury frequency rate (FIFR) | (7.5%) | Zero fatalities – no penalty applied |
| Levels 4 and 5 environmental incidents | (2.5%) | Zero fatalities – no penalty applied |
| Total recordable case frequency rate | 5% | TRCFR target exceeded – 5% incentive applied |
| Operational risk management implementation | 5% | Top 10 SSD risks under control and managed through the ORM process – 5% incentive applied |

2018 performance rating after applying SSD modifier: 87.7% – resulting in a short-term incentive cash bonus of 87.7% of annual BEC out of the maximum bonus potential of 100 % of annual BEC. Deferred shares are based on 150% of the cash award. The total award split is as follows: 40% payable as cash, 40% payable as shares deferred for three years and 20% as shares deferred for five years.

# REMUNERATION REPORT
## CONTINUED

Kumba, under the strategic direction and leadership of the Chief Executive, had a sterling performance year across all of its operational key result areas with the following synopsis across the respective performance areas:

**Financial indicators** – Exceeding stretch target on both EBIT and unit cash cost for Sishen, with Kolomela unit cash cost above the threshold but below the target. Significantly contributed to the achievement of the Anglo American plc financial objectives with results either exceeding the target or above the threshold.

**Production indicators** – Met the threshold target on combined production (Sishen and Kolomela) and on waste stripping at Sishen.

**Safety** – The year had a strong, positive safety performance with no fatalities reported, honouring our commitment of leading a zero harm business. This year the total recordable case frequency rate improved to 1.80 (2017: 3.23), high potential incidents, which is a leading indicator of fatalities, reduced by 67% to 7 (2017: 21) and the number of injuries resulting in lost-time remained similar to 2017. This was achieved largely by a leadership focus on safety, driven personally by the Chief Executive and his focus on safety values and expectations.

A complete implementation of Safety Leadership Alignment (SLAD) training at supervisory level was conducted followed by a roll out of the leadership code, that was geared towards building Leadership capability. A strong ethos of being your "brother's" or "sister's" keeper was encouraged.

**Business development** – Highlight has been the shovel performance improvement, a 65% improvement compared to 2016, reducing the use of contractors resulting in cost savings. This was achieved through better mine design and equipment layout, use of the modular fleet management, increased direct operating hours (DOH) through better workforce management and tempo increases with application of the double sided loading. Plant improvements generated better yield and a shift to higher-quality lump product at a time of record lump premium. All Anglo American bulk commodities improvement processes have been implemented, facilitating sharper performance focus in the business. The Operating Model implementation is in line with schedule, with post-implementation performance KPIs (reported weekly) at 50% to 85% level.

**Strategic development** – Mining rights conditions in compliance and replacement ESOP implemented. Excellent progress both on exploration and tenement negotiations. Resource development plan (RDP) is on track. Both plant projects progressing to schedule.

**Full potential transformation** – Tswelelopele – Three major initiatives have been introduced as part of an overarching commitment to nurturing an inclusive company culture. The Kumba Leadership and Culture Code drives accountability, safety values and diversity. Employee engagement, utilising the South African tradition of story-telling to create a golden thread in messaging, is being encouraged at the Kumba operations. Leadership capacity building is being implemented and significant cultural shifts have been noted.

## CHIEF FINANCIAL OFFICER PERFORMANCE

| Key result area | KPI weighting | Below target | On-target | Exceeding target | Linking 2018 performance to reward – commentary on key performance outcomes |
|---|---|---|---|---|---|
| **Compulsory key performance indicator (KPI) Section – 35% of contract** | | | | | |
| Safety performance | 5% | | | ● | 80% scoring against objectives |
| Tswelelopele full potential programme implementation | 5% | | | ● | 80% scoring against objectives |
| Removing bureaucracy efficiency drive | 15% | | | ● | 80% scoring against objectives |
| Personal and team development | 5% | | | ● | 80% scoring against objectives |
| Preferential procurement | 5% | | | ● | 80% scoring against objectives |
| **Individual key performance indicators (KPI) Section – 65% of contract** | | | | | |
| Business development projects | 10% | | | ● | 80% scoring against objectives |
| Financial reporting and investor relations | 15% | | | ● | 93% scoring against objectives |
| Cost stewardship | 15% | | | ● | 93% scoring against objectives |
| Capital allocation and working capital management | 10% | | | ● | 80% scoring against objectives |
| Business partnering and special projects | 10% | | | ● | 80% scoring against objectives |
| People transformation | 5% | | | ● | 80% scoring against objectives |
| **Overall 2018 performance rating (score out of 5)** | | | | | 4 – (84%) |

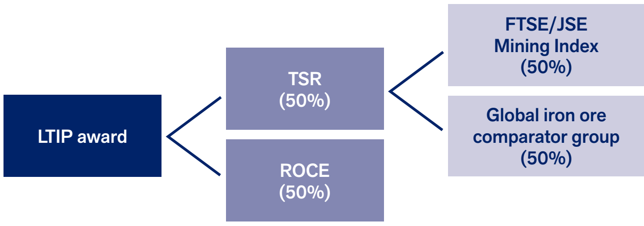
# REMUNERATION REPORT
## CONTINUED

***Key performance commentary for the period under review***
- Total recordable case frequency rate (TRCFR) exceeding target
- Achieved pro-rated group planned outcomes of full potential transformation programme. A US$10/tonne margin improvement programme which has translated into clearly defined targets per key driver and time horizon, with a clear monthly tracking system in place
- Full ESOP implementation
- Balancing working capital in a rail constrained environment
- Capex discipline to retain balance sheet flexibility, maintain strong cash flow and assess all discretionary capex
- High-quality external reporting
- Integration of full potential programme – Tswelelopele into business plan
- Clear capital allocation framework and dividend policy prioritising returns
- Targeted 20% reduction in:
  - approval time lines
  - expenditure review meetings
  - removal of duplication in approval forums

## LTIP VESTING OUTCOMES AND AWARDS FOR THE EXECUTIVE DIRECTORS

**Long Term Incentive Plan (LTIP)**

During 2016, conditional shares were awarded to eligible participants in terms of the rules of the LTIP. Vesting of these offers is subject to performance conditions based on the following measures:
- Relative total shareholder return (TSR) – 50 %
- Attributable return on capital employed (ROCE) – 50 %




The performance condition testing has been calculated based on targeted versus actual performance during 2018, with reference to base year (2015) parameters. During 2018, the actual attributable ROCE performance was recorded as above the extended (stretch) target. In terms of the relative TSR measure, Kumba performed above the upper quartile compared to the global iron ore comparator group as well as the FTSE/JSE Mining Index stretch target.

**Attributable ROCE and vesting conditions – applicable to 50% of conditional shares:**

Performance in terms of attributable ROCE for 2018 has resulted in the 2016 conditional award vesting as follows:

***Table A : 2018 Attributable ROCE Condition Testing – 50% of 2016 Overall Award Vesting Condition***

| Percentage of LTIP vesting | Performance target level | ROCE target for 2016 award (2019 vesting) | 2018 attributable ROCE achieved | 2018 attributable ROCE condition vesting |
|---|---|---|---|---|
| 30.0% | Threshold | 3.0% | **44.9%** | 100.0% |
| 100.0% | Stretch | 13.0% | | |

As a result of the 2018 actual ROCE performance being above the extended (stretch) target of 13%, all conditional shares subject to this performance condition will vest in 2019, ie 50% of 2016 award.

### TSR performance and vesting conditions

50% of the conditional shares that are subject to the TSR performance condition that will vest are determined by assessing the Company's relative performance to a global iron ore comparator group in terms of TSR. The approved peer group for the period was determined as:

- Atlas Iron
- China Vanadium
- Rio Tinto
- Mount Gibson Iron
- Fortescue Metals
- Ferrexpo
- Vale

*Table B: 2018 relative TSR global iron ore comparator group condition testing – 25% of 2016 overall award vesting condition*

| Percentage of LTIP vesting | Performance target level | ROCE target for 2016 award (2019 vesting) | 2018 attributable ROCE achieved | 2018 attributable ROCE condition vesting |
|---|---|---|---|---|
| 30.0%<br>100.0% | Threshold<br>Stretch | 38.2% (median)<br>54.2% (upper quartile) | 106.2% | 100.0% |

As noted above, the comparator group and mining index carry an equal weighting in determining the vesting percentage in terms of the total shareholder return performance. As a result, 100% of share awards subject to the TSR performance condition, will vest, ie 50% of the 2016 award/grant.

Kumba ranked above the upper quartile of the above comparator group and therefore 100% of this portion will vest, ie 25% of the 2016 award/grant.

The remaining half of the conditional shares that are subject to the relative TSR performance condition that will vest is determined by assessing the Company's relative performance against the JSE/FTSE Mining Index. Kumba's TSR of 106.22% lies above the JSE/FTSE mining index stretch target. As a result, 100% of this portion will vest, ie 25% of the 2016 award/grant.

*Table C: 2018 relative TSR FTSE/JSE Mining Index (Weighted Market Cap) condition testing – 25% of 2016 overall award vesting condition*

| Percentage of LTIP vesting | Performance target level | ROCE target for 2016 award (2019 vesting) | 2018 attributable ROCE achieved | 2018 attributable ROCE condition vesting |
|---|---|---|---|---|
| 30.0%<br>100.0% | Threshold<br>Stretch | -23.6% (index)<br>-14.6% (index + 9%) | **106.2%** | 100.0% |

### Overall LTIP vesting based on the combined attributable ROCE and relative TSR performance conditions

The overall vesting of the 2016 LTIP conditional share award based on both the attributable ROCE (50%) and the relative TSR (50%) performance measures for 2018 is 100%.

# REMUNERATION REPORT

## CONTINUED

### 2018 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 2019) | DBA | FSP | LTIP | Total long-term incentive | 2018 |
| **Executive directors** | | 5 | | 6 | | 7 | 8 | 9 | | | |
| 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** |

1 Resigned 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 three-day 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 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.

## 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** |

1 Value of LTIP shares awarded in 2015, estimated LTIP value – 1 March 2018 vesting is delayed due to employee being subject to a closed period.
2 Resigned 11 May 2017.
3 Appointed 1 September 2017.
4 Resigned 30 June 2017.
5 Resigned 28 February 2017. Cash bonus includes cash payment in lieu of 2017 DBA share award.
6 Internal transfer from Anglo American Coal SA on 1 May 2017. Cash bonus includes pro ratapro rata bonus earned at Anglo American Coal SA. LTIP value earned relate to an award made in Anglo American plc shares, when employed at Anglo American Coal SA.
7 Resigned 30 June 2017. Cash bonus includes cash payment in lieu of 2017 DBA share award.
8 Appointed 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. Termination payment for FT Kotzee reflects only leave encashment (detail of his severance package of R26,076,878 was provided on page 99 of the 2017 Integrated report).
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 a 87.54% achievement of performance conditions and a three-day VWAP on 31 December 2017 of R374.36.

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

# REMUNERATION REPORT

## CONTINUED

### 2018 SINGLE FIGURE REMUNERATION

| R'000 | Fees | | Total emoluments |
|---|---|---|---|
| | Directors' fees | Committee fees | 2018 |
| **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 |
| **Total** | **3,993** | **4,404** | **8,397** |

[1] Resigned 11 May 2018

### 2017 SINGLE FIGURE REMUNERATION

| R'000 | Fees | | Total emoluments |
|---|---|---|---|
| | Directors' fees | Committee fees | 2017 |
| **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 |
| LM Nyhonyha[8] | – | – | – |
| SS Ntsaluba[9] | 130 | 346 | 476 |
| S Pearce[10] | 167 | 74 | 241 |
| BP Sonjica | 219 | 291 | 510 |
| AH Sangqu[11] | 52 | 69 | 121 |
| N Viljoen[12] | 52 | – | 52 |
| **Total** | **2,690** | **4,049** | **6,739** |

[1] Resigned 30 September 2017
[2] Resigned 11 May 2017
[3] Appointed 1 December 2017
[4] Appointed 24 March 2017
[5] Appointed 1 August 2017
[6] Appointed 24 March 2017
[7] Appointed 1 December 2017. No payment for 2017 as first payment is due for February 2018
[8] Resigned 31 December 2016
[9] Appointed 5 June 2017
[10] Appointed 24 March 2017
[11] Resigned 24 March 2017
[12] Resigned 24 March 2017

## 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 below.

| | | | | 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 R'000** | **Estimated fair value on 31 December 2018 R'000** |
| **Executive directors** | | | | | | | | | [3] | [4] |
| 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[5] | 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 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 three-day VWAP on 31 December 2018 of R276.94.
5 Awards were made during tenure as executive directors and awards were retained in terms of separation agreement.

# REMUNERATION REPORT
## CONTINUED

| | | | | 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 R'000** | **Estimated fair value on 31 December 2018 R'000** |
| **Prescribed officers** | | | | | | | | | [2] | [3] |
| 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[1] | 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[1] | 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[1] | 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[1] | 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[1] | 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[1] | 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] Share vesting delayed to 9 April 2018 due to employee being subject to an embargo.
[2] Includes dividend payments received on 12 March 2018 and 20 August 2018 as well as face value of share vestings during 2018.
[3] 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 three-day VWAP on 31 December 2018 of R276.94.

## UNVESTED AWARDS AND CASH FLOW

| 2017 | Scheme | Award date | Earliest date of vesting | Number of shares: Opening balance on 1 January 2017 | Granted during 2017 | Forfeited during 2017 | Vesting during 2017 | Closing balance on 31 December 2017 | Value of receipts R'000 | Estimated fair value on 31 December 2017 R'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | | | [4] | [5] |
| 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 three-day VWAP on 31 December 2017 of R374.36.
6 Awards were made during tenure as Executive directors 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.

# REMUNERATION REPORT
## CONTINUED

| 2017 | Scheme | Award date | Earliest date of vesting | Number of shares: Opening balance on 1 January 2017 | Granted during 2017 | Forfeited during 2017 | Vesting during 2017 | Closing balance on 31 December 2017 | Value of receipts R'000 | Estimated fair value on 31 December 2017 R'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Prescribed officers** | | | | | | | | | 4 | 5 |
| 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** | **–** |

| 2017 | Scheme | Award date | Earliest date of vesting | Number of shares<br>Opening balance on 1 January 2017 | Granted during 2017 | Forfeited during 2017 | Vesting during 2017 | Closing balance on 31 December 2017 | Value of receipts R'000 | Estimated fair value on 31 December 2017 R'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Prescribed officers** | | | | | | | | | [4] | [5] |
| 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 three-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.

## 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.

| Capacity and name | 2018<br>Number of shares | 2018<br>Long-term incentive scheme shares | 2018<br>Total beneficial interest | 2017<br>Number of shares | 2017<br>Long-term incentive scheme shares | 2017<br>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 |
| F Kotzee[2] | – | 94,918 | 94,918 | – | 111,737 | 111,737 |
| **Sub-total** | **–** | **718,713** | **718,713** | **–** | **745,022** | **745,022** |
| **Non-executive directors** | | | | | | |
| 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.

# SALIENT FEATURES

## SALIENT FEATURES FOR THE YEAR ENDED 31 DECEMBER

| | **2018** | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Group safety** | | | | | |
| Fatalities | **0** | 0 | 2 | 0 | 1 |
| Total recordable case frequency rate (TRCFR) | **1.80** | 3.23 | 3.90 | 4.5 | 4.35 |
| Fatal-injury frequency rate (FIFR) | **–** | – | 0.016 | – | 0.005 |
| Lost-time injury frequency rate (LTIFR) | **0.92** | 0.84 | 1.14 | 1.17 | 1.15 |
| **Production (Mt)** | | | | | |
| Sishen | **29.2** | 31.1 | 28.4 | 31.4 | 35.5 |
| Kolomela | **13.9** | 13.9 | 12.7 | 12.1 | 11.6 |
| Thabazimbi | **n/a** | n/a | 0.4 | 1.4 | 1.1 |
| (Thabazimbi production ceased in March 2016) | | | | | |
| **Sishen free-on-rail (FOR) unit cost** | | | | | |
| Unit cost (R/tonne)/(US$/tonne) | **378.2/28.6** | 375.4/28.7 | 412.0/28.1 | 403.5/31.6 | 331.6/30.6 |
| Cash cost (R/tonne)/(US$/tonne) | **290.0/21.9** | 287.3/22.0 | 296.2/20.2 | 310.8/24.4 | 271.8/25.1 |
| **Kolomela FOR unit cost** | | | | | |
| Unit cost (R/tonne)/(US$/tonne) | **354.7/26.8** | 336.7/25.8 | 283.4/19.3 | 245.7/19.3 | 269.1/24.8 |
| Cash cost (R/tonne)/(US$/tonne) | **248.6/18.8** | 236.7/18.1 | 201.1/13.7 | 177.7/13.9 | 207.6/19.2 |
| **Stripping ratio** | | | | | |
| Sishen | **4.7** | 4.3 | 3.3 | 5.7 | 4.4 |
| Kolomela | **3.5** | 3.4 | 3.7 | 3.1 | 3.7 |
| Thabazimbi | **–** | – | – | – | 25.5 |
| **Logistics (Mt)** | | | | | |
| Total volumes railed to port of Saldanha Bay (including Saldanha Steel) | **40.6** | 42.0 | 39.8 | 42.4 | 42.2 |
| Total volumes loaded at port | **40.0** | 41.6 | 38.7 | 43.5 | 40.1 |
| **Sales volumes (Mt)** | | | | | |
| Export sales | **40.0** | 41.6 | 39.1 | 43.5 | 40.5 |
| Domestic sales | **3.3** | 3.3 | 3.4 | 4.3 | 4.8 |
| **Reserve life (years) (including inferred resources) (Mt)** | | | | | |
| Sishen | **14** | 13 | 17 | 15 | 16 |
| Kolomela | **14** | 14 | 18 | 21 | 21 |
| Thabazimbi | **–** | – | – | – | 9 |
| **CED expenditure (Rm)** | | | | | |
| Sishen | **48.7** | 13.0 | 11.4 | 70.9 | 81.3 |
| Kolomela | **47.1** | 21.6 | 16.1 | 31.4 | 48.1 |
| Thabazimbi | **–** | 0.7 | 6.7 | 10.1 | 9.5 |
| **Transformation** | | | | | |
| HDSAs in management (%) | **68** | 66 | 62 | 59 | 58 |
| Women in core mining (%) | **23** | 17 | 16 | 14 | 13 |
| **Environmental performance** | | | | | |
| Number of level 3, 4 or 5 environmental incidents | **0** | 0 | 0 | 1 (Level 3) | 1 (Level 3) |
| Total water withdrawals (million $m^3$) | **30.8** | 33.2 | 24.1 | 33.1 | 15.5 |
| Total energy consumed (million GJ) | **8.85** | 8.94 | 8.45 | 11.1 | 10.8 |

## EMPLOYEES (EXCLUDING HEAD OFFICE, LOGISTICS AND LEARNERSHIPS)

| | **2018** | | 2017 | | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Full time** | **Contractors** | Full time | Contractors | Full time | Contractors | Full time | Contractors | Full time | Contractors |
| Operation | | | | | | | | | | |
| Sishen | **4,312** | **4,440** | 4,194 | 3,112 | 4,040 | 1,426 | 5,575 | 2,269 | 5,736 | 2,582 |
| Kolomela | **1,382** | **1,070** | 1,324 | 1,178 | 1,178 | 932 | 1,143 | 1,091 | 1,205 | 1,955 |
| Thabazimbi | **–** | **–** | 61 | 38 | 63 | 25 | 408 | 107 | 829 | 437 |

# GLOSSARY OF TERMS AND ACRONYMS

| | |
|---|---|
| **AFS** | Annual financial statements |
| **AGM** | Annual general meeting |
| **AMCU** | Association of Mineworkers and Construction Union |
| **Attributable free cash flow** | The cash flow generated from operations less total capital expenditure, cash tax paid, net interest, dividends paid to minority interests and dividends received from associates and joint ventures. The metric also excludes the receipt of disposal proceeds and dividends paid to Kumba shareholders |
| **BEC** | Basic employment cost |
| **BEE** | Black economic empowerment |
| **B-BBEE** | Broad-based black economic empowerment |
| **BM** | Business modifier |
| **CED spend** | The sum of donations for charitable purposes and community investment (which include cash and in-kind donations and staff time) as well as investment in commercial initiatives with public benefit (such as enterprise development) |
| **CFR** | Cost and freight |
| **CIPC** | Companies and Intellectual Property Commission |
| **COID** | Compensation for occupational injuries and diseases |
| **CPI** | Consumer price index |
| **CTC** | Cost to company |
| **DAF** | Delegation of Authority Framework |
| **DBA** | Deferred bonus arrangement |
| **DM** | District municipalities |
| **DMR** | Department of Mineral Resources |
| **DMS** | Dense media separation |
| **DMT** | Dry metric tonne |
| **DOH** | Direct operating hours |
| **DSO** | Direct shipping ore |
| **EBIT** | Earnings before interest and tax |
| **EBITDA** | Earnings before interest, tax, depreciation and amortisation |
| **EPS** | Earnings per share |
| **ESOP** | Employee share ownership scheme |
| **EVP** | Employee value proposition |
| **Exco** | Executive Committee |
| **FIFR** | Fatal injury frequency rate - rate of fatalities per 1,000,000 hours worked (total fatalities x 1,000,000 / total hours worked) |
| **FOB** | Free-on-board |
| **FOR** | Free-on-rail |
| **FSP** | Forfeitable share plan |
| **FTSE** | Financial Times Stock Exchange |
| **GCC** | Government certificate of competency |
| **GRI** | Formerly Global Reporting Initiative – now known as GRI |
| **HDSA** | Historically disadvantaged South Africans |
| **HIV** | Human immunodeficiency virus |
| **HPI** | High-potential incident |
| **HR** | Human resources |

# GLOSSARY OF TERMS AND ACRONYMS

## CONTINUED

| | |
|---|---|
| **IAS** | International Accounting Standards |
| **IDC** | Industrial Development Corporation |
| **IFC** | International Finance Corporation |
| **IFRS** | International Financial Reporting Standards |
| **IIRC** | International Integrated Reporting Council |
| **IMO** | International Maritime Organisation |
| **IOEC** | Iron ore export channel |
| **IPM** | Individual performance modifier |
| **IR** | Integrated report |
| **ISO** | International Organisation for Standardisation |
| **IT** | Information technology |
| **JSE** | Johannesburg Stock Exchange |
| **King IV** | King IV Report on Corporate Governance for South Africa, 2016 |
| **KPI** | Key performance indicators |
| **Level 3 – 5 environmental incidents** | Those environmental incidents that we consider to have prolonged impacts on the local environments |
| **LM** | Local municipalities |
| **LoM** | Life-of-mine |
| **LoMP** | Life-of-mine plan |
| **LTI** | Lost-time injury |
| **LTIFR** | Lost-time injury frequency rate – the number of lost-time incidents per 1,000,000 hours worked (LTI *1,000,000/total hours) |
| **LTIP** | Long-term incentive plan |
| **MC 2018** | Mining Charter 2018 - gazetted in December 2018 |
| **MENA** | Middle East and North Africa region |
| **MoI** | Memorandum of Incorporation |
| **MPRDA** | Mineral and Petroleum Resources Development Act |
| **MPR** | Minimum permitting requirements |
| **MPT** | Multi-purpose-terminal |
| **MRC** | Management Risk Committee |
| **Mt** | Million tonnes |
| **Mtpa** | Million tonnes per annum |
| **New cases of occupational diseases (NCOD)** | Number of new cases of occupational disease diagnosed among employees during the reporting period |
| **NCOP** | National Council of Provinces |
| **NDP** | National Development Plan |
| **NGO** | Non-governmental organisation |
| **NIHL** | Noise-induced hearing loss |
| **NUM** | National Union of Mineworkers |
| **OEE** | Overall equipment effectiveness |
| **OHSAS** | Occupational Health and Safety Assessment Series |
| **OMP** | Occupational medical practitioner |

| | |
|---|---|
| **ORMR** | Ore Reserve (and Saleable Product) and Mineral Resource Report |
| **Passport 360** | A system that stores all electronic  safety documents required by contractors |
| **P101** | Asset productivity programme to shift our key operational processes to benchmark and then beyond, exceeding industry best practice productivity at our operations and deliver our full potential |
| **Platts IODEX** | Platts iron ore index |
| **PUE** | Priority unwanted events |
| **PwC** | PricewaterhouseCoopers |
| **RDP** | Resource Development Plan |
| **Remco** | Human Resources and Remuneration Committee |
| **Return on capital employed (ROCE)** | The return on adjusted capital employed and calculated as annualised EBIT divided by adjusted average capital employed |
| **SAMREC Code** | The South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves – SAMREC Code 2016 edition |
| **SDG** | Sustainable Development Goals |
| **SEAT** | Socio-Economic Assessment Toolbox |
| **Setco** | Social, Ethics and Transformation Committee |
| **SIB** | Stay in business |
| **SIOC** | Sishen Iron Ore Company Proprietary Limited |
| **SIOC CDT** | SIOC Community Development Trust |
| **SLAD** | Safety Leadership Alignment Day |
| **SMME** | Small, medium and micro-sized enterprise |
| **SOE** | State owned entities |
| **SR** | Sustainability report |
| **Social way implementation** | Our social way implementation defines Anglo American's governing framework for social performance. Each operation's compliance is assessed annually. Every operation is required to implement an improvement plan for those relevant requirements that are not met in full |
| **SSD** | Safety and sustainable development |
| **STI** | Short-term incentive |
| **TB** | Tuberculosis |
| **TGP** | Total guaranteed pay |
| **Total water withdrawals** | Total water withdrawals by source, reported in line with the International Council on Metals and Mining (ICMM) guidance, includes: surface water, ground water, third-party potable water and third-party non-potable water |
| **TRCFR** | Total recordable case frequency rate (calculated) is the rate of recordable cases per 1,000,000 hours worked |
| **TSR** | Total shareholder return |
| **UASA** | United Association of South Africa |
| **UHDMS** | Ultra-high density media separation |
| **UIF** | Unemployment Insurance Fund |
| **UN** | United Nations |
| **VFL** | Visible felt leadership |
| **Voluntary labour turnover** | Number of permanent employee resignations as a percentage of total permanent employees |
| **VWAP** | Volume weighted average price |

# ADMINISTRATION

## COMPANY REGISTRATION NUMBER

2005/015852/06
JSE share code: KIO
ISIN code: ZAE000085346

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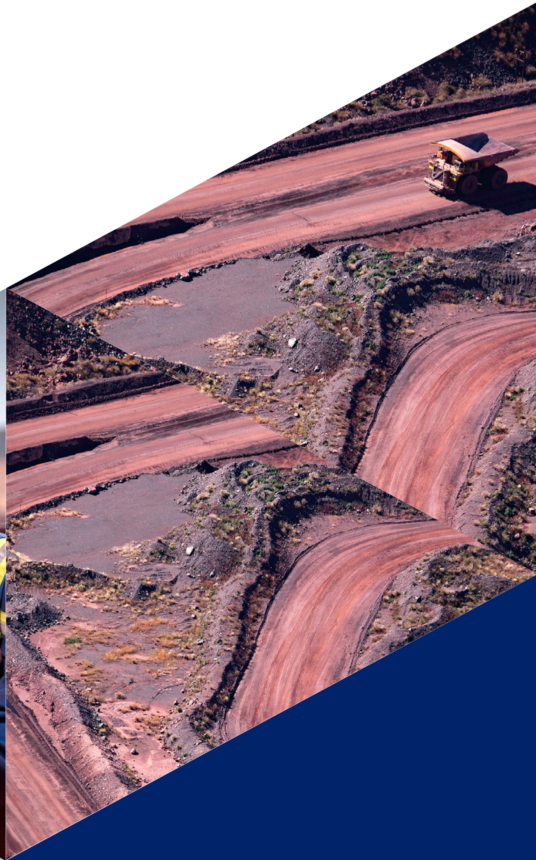
## FORWARD-LOOKING STATEMENTS

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.



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