



# ANNUAL FINANCIAL STATEMENTS 2009



A member of the Anglo American plc group

# KUMBA IRON ORE

## Highlights

### LTIFR

Down 42%  
to 0.07

### SISHEN MINE'S PRODUCTION

Up 16%  
to 39.4Mt

### EXPORT SALES VOLUMES

Up 37%  
to 34.2Mt

### SISHEN MINE'S UNIT CASH COST

Down 4%  
in real terms

### OPERATING PROFIT

R12.9 billion

Kumba Iron Ore Limited, a member of the global Anglo American plc group, is a leading supplier of seaborne iron ore. In 2009 Kumba exported over 34Mt of superior iron ore to customers in a range of geographical locations around the globe; from China, Japan and Korea to a number of countries in Europe and the Middle East.

At present, Kumba's iron ore comes from its Sishen and Thabazimbi mines, located in South Africa's Northern Cape and Limpopo provinces respectively. A major new mine is being developed at Postmasburg in the Northern Cape that will start producing in 2012, ramping up to full production of 9Mtpa in 2013.

Since listing on the JSE Limited in 2006, Kumba has proven itself a unique pure-play iron ore investment, known for its product quality, extensive base of mineral resources and reserves and progressive approach.

The group is well positioned not only to weather the current downturn in the demand for commodities, but to make the most of the inevitable upswing when it follows.

## About these Annual financial statements

- The Annual financial statements have been produced by Kumba Iron Ore Limited (Kumba) for the 2009 financial year, that is from 1 January 2009 to 31 December 2009.
- The Annual financial statements are available on the Internet at [www.kumba.co.za](http://www.kumba.co.za)
- In addition to the Annual financial statements, Kumba produces the following reporting publications:
  - Annual review, that provides a concise overview of the group's operations for the financial year
  - Sustainable development report, on the social-economic and environmental impacts of the company's activities on our journey to sustainability.

Cover: Iron ore awaiting shipment at the Saldanha deep-water port on South Africa's west coast. All Kumba's exports go through Saldanha, which is linked to the company's flagship Sishen Mine by a dedicated 861km railway line.

# CONTENTS

## **FINANCIAL REVIEW** PAGE 3

---

## **CORPORATE GOVERNANCE** PAGE 15

Corporate governance statement	16
Audit committee report to shareholders	19
Risk management	20
Risk factors	21
Board of directors	23

---

## **ANNUAL FINANCIAL STATEMENTS** PAGE 25

Directors' responsibility for financial reporting	26
Certificate of the company secretary	27
Independent auditor's report to the shareholders of Kumba Iron Ore Limited	28
Directors' report	29
Remuneration report	33
Principal accounting policies	42
Group annual financial statements	60
Company annual financial statements	98
Annexures	105
Shareholder analysis	109
Shareholders' diary	112
Kumba Iron Ore Limited administration	IBC

---





# FINANCIAL REVIEW



Left: Freight wagons carrying iron ore enter the tippler at the Saldanha bulk terminal for offloading. The tippler can accommodate two wagons at a time, which are offloaded without uncoupling the wagons from the rest of the train.

# Financial review

## Highlights

### REVENUE

Up 10%  
to R23.4 bn

### OPERATING PROFIT

of R12.9 bn

### SISHEN MINE UNIT CASH COST

down 4%  
(in real terms)

### HEADLINE EARNINGS

R7.0 billion  
or R21.82 per share

### TOTAL DIVIDEND

R14.60 per share

### SISHEN SOUTH ARBITRATION

Favourable award

Kumba delivered an exceptional operational and sales performance in 2009 with substantial increases in mining, production and export sales volumes and strong cash flows driven by an increase in export revenues and tight cost management, notwithstanding the backdrop of global economic recession. Kumba's revenue increased by 10% to R23.4 billion on the back of a 37% increase in export sales volumes driven by strong demand from China, though tempered by lower export volumes to Europe and Japan. Despite starting the year with concerns over the visibility and sustainability of export sales, the group increased revenue through higher export sales volumes which was mostly offset by the 40% reduction in benchmark iron ore export prices resulting in a 5% decrease in operating profit. Through focused cost management and a 16% increase in production, mainly from the Jig plant, the small increase in Sishen Mine's unit cash cost on a like-for-like basis was well below inflationary cost escalations. Sishen Mine's unit cash cost for 2009 was R98.83 (US\$11.78) per tonne compared to R96.53 (US\$11.70) per tonne at the end of 2008.

A favourable award was received in the arbitration with ArcelorMittal SA Limited ('ArcelorMittal') and it has been determined that ArcelorMittal is not entitled to participate in the development of the Sishen South project ('Kolomela Mine') currently under construction. This should result in significant value in the form of profit preservation for the group.

### Revenue

Kumba's revenue increased by 10% to R23.4 billion on the back of a 37% increase in export sales volumes driven by strong demand from China. The increase in revenue from higher

volumes more than offset the average 40% reduction in benchmark iron ore export prices.

Revenue generated from the sale of iron ore increased by 6% from R18.9 billion to R20.0 billion, with R18.7 billion (2008: R17.5 billion) from export sales. Revenue from shipping services increased by 41% from R2.5 billion to R3.4 billion.

The group increased total sales volumes by 21% from 33.0Mt in 2008 to 40.0Mt. Export sales volumes from Sishen Mine for the year increased by 9.3Mt or 37% from 24.9Mt in 2008 to 34.2Mt on the back of increasing volumes from the Jig plant, the successful introduction of a new blended fines product and an increase in demand from China. Export sales volumes to China totalled 75% (2008: 43%) of total export volumes for the year. Total domestic sales volumes of 5.8Mt were down by 28% or 2.3Mt due to lower demand from ArcelorMittal.

The 10% increase in revenue over last year was principally as a result of:

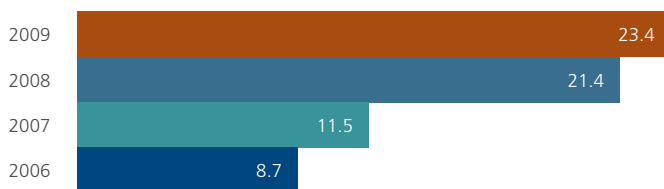
- Increased export sales volumes, contributed R6.6 billion to revenue, offset by the year-on-year decrease in export iron ore prices, reducing revenue by R5.4 billion, and lower domestic sales volumes due to the decline in domestic demand, which reduced revenue by R377 million. The net effect of these factors on revenue was a net increase of R822 million.



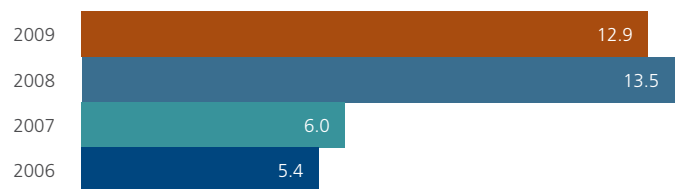
## Operational performance

The key indicators of our operating results during the past year were:

### REVENUE (R BILLION)



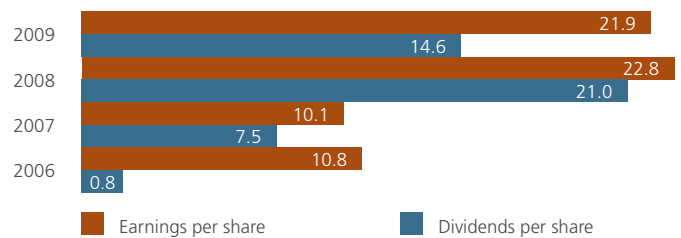
### OPERATING PROFIT (R BILLION)



### SISHEN MINE UNIT CASH COST (R/TONNE)



### ATTRIBUTABLE EARNINGS AND DIVIDEND PER SHARE (RAND)



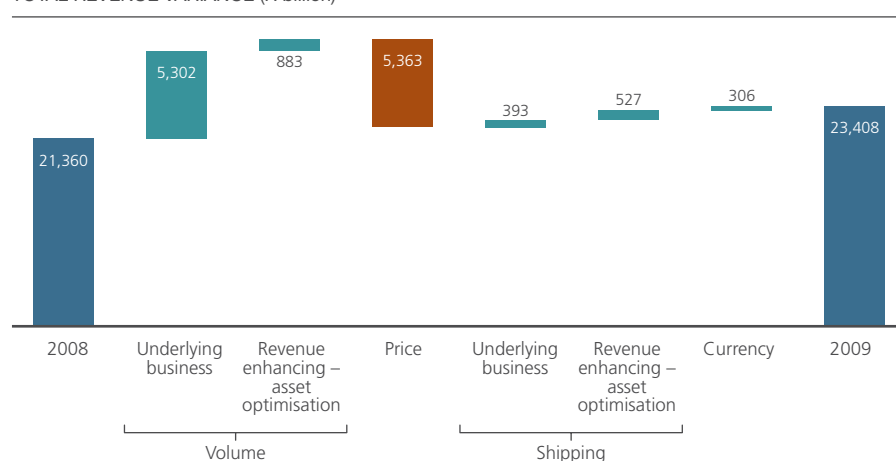
Rand million	2009	2008	% change	2007
Revenue	23,408	21,360	10%	11,497
Operating expenditure	(10,528)	(7,847)	34%	(5,519)
Operating profit	12,880	13,513	(5%)	5,978
Operating margin (%) (EBIT)	55	63	(8%)	52
Mining operating margin (%) (EBIT)	61	69	(8%)	56
Headline earnings	6,955	7,276	(4%)	3,143
Cash from operations	12,622	14,519	(13%)	5,805
Capital expenditure	3,996	2,563	56%	2,119

## Revenue: sector analysis

Rand million	2009	2008	% change	2007
Export	<b>18,657</b>	17,547	6%	9,064
Tonnes sold (Mt)	<b>34.2</b>	24.9	37%	24.0
US Dollar per tonne	<b>65</b>	88	(26%)	54
Domestic (Sishen Mine)	<b>816</b>	761	7%	827
Tonnes sold (Mt)	<b>4.0</b>	5.6	(29%)	6.5
Rand per tonne	<b>204</b>	136	51%	127
Domestic (Thabazimbi Mine)	<b>543</b>	640	(15%)	521
Tonnes sold (Mt)	<b>1.8</b>	2.5	(24%)	2.4
Rand per tonne	<b>302</b>	252	16%	217
Shipping operations	<b>3,392</b>	2,412	41%	1,085
<b>Total revenue</b>	<b>23,408</b>	<b>21,360</b>	<b>10%</b>	<b>11,497</b>

- A R920 million increase in revenue from shipping operations. Total tonnes shipped by Kumba increased by 15.3Mt from 6.2Mt to 21.5Mt during 2009, albeit at a lower margin. There was a fundamental shift in export sales from a FOB basis to a CIF basis as Kumba redirected export volumes from traditional markets of Japan, Korea and Europe, where customers arrange their own shipping, to China.
- Despite the significant strengthening of the Rand to the US Dollar in the third quarter of 2009, the average exchange rate of the Rand to the US Dollar for 2009 was slightly weaker (average exchange rates – R8.39/US\$1.00 in 2009 compared with R8.25/US\$1.00 in 2008), which contributed R306 million to revenue.

TOTAL REVENUE VARIANCE (R billion)



## Operating expenditure

Operating expenditure increased by 34% year-on-year from R7.8 billion to R10.5 billion, driven by increases in mining, production and logistics activities.

Cost of goods sold increased by 34% from R3.7 billion to R5.0 billion. Production cost for Sishen Mine have increased by 21% from R3.8 billion to R4.6 billion principally due to a 14% increase in total tonnes mined from 108.8Mt in 2008 to 128.3Mt in 2009, fuelled by the inflation in labour related expenditure, offset by the decreasing cost of diesel and blasting products and strict cost management.

Finished goods inventory increased from 5.8Mt 2008 to 6.7Mt in 2009. This increase coupled with the stockpiling of 10.5Mt of B-grade material to be used by the Jig plant were the main contributors to the increase in the movement in inventories to R600 million for the year.





During 2008 the group earned net foreign currency translation gains of R1.0 billion, however, during 2009 the net gain was R329 million. Operating expenses were, therefore, adversely affected by lower net translation gains earned in 2009.

Selling, rail and port costs increased by 44% from R2.0 billion to R2.8 billion, principally due to the logistics and export operations transporting the increased production achieved for 2009. Volumes railed on the Sishen-Saldanha export channel increased by 23% to 34.6Mt, while a 38% increase in the volumes shipped from the port at Saldanha was achieved.

Expenditure relating to our shipping services increased by R612 million against an increase of R920 million achieved in the revenue from these operations. The increase was mainly due to a 15.3Mt increase in volumes shipped by Kumba on behalf of its customers to 21.5Mt for the year, utilising a record 134 vessels.

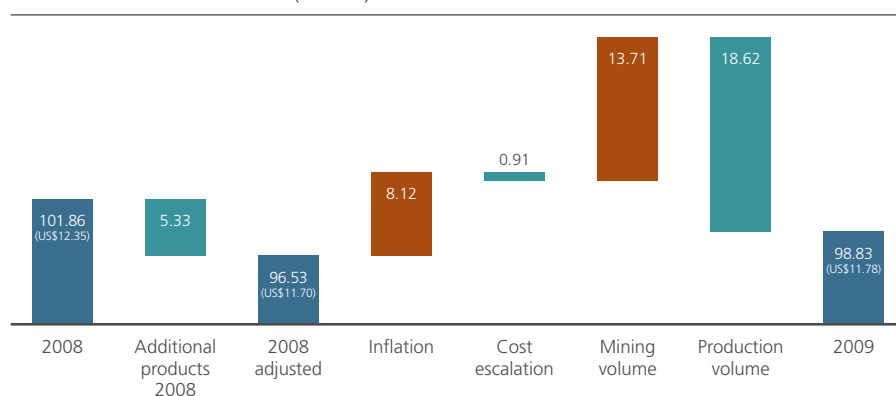
### Sishen Mine unit cost

Sishen Mine's cash unit cost increased by just over 2% to R98.83/t in 2009 compared to R96.53/t in 2008 on a like-for-like basis (excluding the cost incurred in 2008 on the 900Kt additional high cost low quality production). The mine implemented a number of asset optimisation initiatives focusing on improving the efficiency of mining operations on a sustainable basis which assisted in containing costs despite the increase in mining activity.

### Operating expenditure

Rand million	2009	2008	% changed	2007
Production costs	5,959	5,053	39%	3,486
Movement in inventories	(600)	(289)	107%	(402)
Finished products	(440)	(190)	132%	7
Work-in-progress	(160)	(99)	61%	(409)
Finance gains	(329)	(1,043)	(68%)	(40)
Other	(29)	20	–	294
<b>Cost of goods sold</b>	<b>5,001</b>	<b>3,741</b>	<b>34%</b>	<b>3,338</b>
Selling, rail and port costs	2,838	1,977	44%	1,300
Cost of services rendered – shipping	2,697	2,085	29%	887
Impairment of property, plant and equipment	–	50	–	–
Sublease rent received	(8)	(6)	33%	(6)
<b>Operating expenditure</b>	<b>10,528</b>	<b>7,847</b>	<b>34%</b>	<b>5,519</b>

SISHEN MINE CASH UNIT COST (R/tonne)



The increase in cash unit cost was driven by a few key factors:

- Inflationary pressures principally on labour, contract mining and corporate office costs, which together account for in excess of 50% of the mine's cost structure;
- The inflationary pressures were eased through a 36% decrease in diesel prices during the year from R10.40 per litre to R6.70 per litre. Diesel now contributes only 11% to the mine's cash cost (2008: 15%);
- Waste volumes mined increased by 28% or 18.0Mt to 82.1Mt in 2009;
- However, the impact of the additional mining activities was more than offset by the benefit of additional production from the ramp-up of the jig plant that contributed a further 5.7Mt of production volume for the year.

In real terms unit cash costs were down 4%.

### Operating profit

Despite benchmark iron ore export prices decreasing on average by 40% for the 2009/2010 iron ore year, R12.9 billion operating profit was achieved for the year, a reduction of only R633 million or 5% from the R13.5 billion in 2008. Kumba's operating profit margin of 55% (61% from mining activities) for the year, decreased by 8% from 63% (69% from mining activities) in 2008.

### Asset optimisation and procurement

Kumba has implemented a number of revenue enhancing and operating efficiency initiatives as part of the asset optimisation programme which realised R1.6 billion operating profit benefits during the year. Except for certain

once-off revenue enhancement activities that contributed R503 million for 2009, these initiatives are recurring in nature and will assist in enhancing the financial performance of the group and protecting operating profit margins in the future.

Revenue enhancing initiatives include, increasing tonnes on which shipping services are provided, decreasing maintenance shutdown intervals of the DMS plant and producing and selling niche products to enhance the premia received. The flagship Sishen Mine transformation programme (Bokamoso) launched during the year has started to deliver visible results in the area of operating efficiency improvements. During the year the mining truck and shovel fleet achieved a 28% efficiency improvement and the mine's drilling fleet a 4% improvement. Further value from this programme will be unlocked as it progresses to the next key stages of the production process of the mine.

Further benefits of R603 million were realised through savings in operating costs and capital expenditure through the participation in the One Anglo Supply Chain programme.

### Capital expenditure

The group incurred capital expenditure on property, plant and equipment of R4.0 billion for the year (2008: R2.6 billion) for the expansion of its operations (R2.8 billion), mainly on the development of Kolomela Mine (R2.5 billion), and R1.2 billion (2008: R841 million) to maintain its operations. At Sishen Mine R1.0 billion capital expenditure was incurred on the programme to increase the mining fleet capacity by approximately 20% to cater for increased waste mining volumes.

R3.2 billion of capital expenditure (including R189 million of capitalised mining operating expenses) has been incurred to date on Kolomela Mine, of which R2.5 billion was incurred during the year ended 31 December 2009.

### Net debt

The group continued to generate substantial cash from its operations, with R12.6 billion generated during the year. These cash flows were used to pay taxation of R3.2 billion and dividends of R8.2 billion (including dividends of R1.8 billion paid to minority shareholders of Sishen Iron Ore Company (SIOC)). Capital expenditure of R4 billion was incurred which resulted in the group's net debt position increasing to R3 billion as at 31 December 2009.

Rand million	2009	2008
Long-term interest-bearing borrowings	3,859	977
Short-term interest-bearing borrowings	55	2,881
<b>Total</b>	<b>3,914</b>	3,858
Cash and cash equivalents	(891)	(3,810)
<b>Net debt</b>	<b>3,023</b>	48
<b>Total equity</b>	<b>8,956</b>	8,506
Interest cover (times)	43	33

During the year Kumba secured a R3.2 billion term loan to refinance the R2.8 billion revolving facility that was maturing in November 2009. To date R3.8 billion of the total R8.6 billion term debt facilities has been drawn down to finance Kumba's expansion. Kumba was not in breach of any of its covenants during the year. The group had undrawn short- and long-term borrowing facilities at 31 December 2009 of R8.1 billion.



## Acquisition of business

On 15 July 2009 SIOC acquired Taurus Investments SA, an Anglo American company incorporated in Luxembourg for a cash consideration of R115 million (US\$14 million).

This company was acquired to extend the benefit of the group's offshore operations by creating a European marketing hub to service the European and Middle East and North African markets as well as to establish collaboration with Anglo American plc's current operations in Luxembourg. Taurus was renamed Kumba International Trading SA.

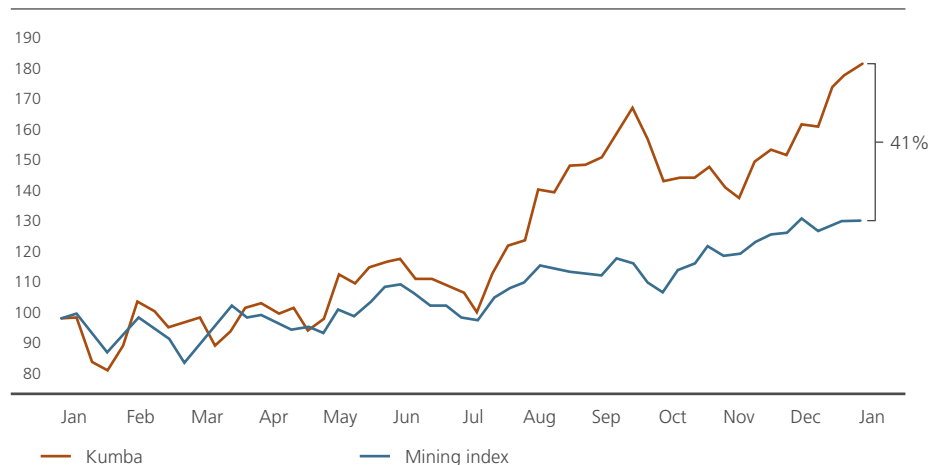
The effective date of this transaction was 15 July 2009, as this is the date on which SIOC effectively obtained control by acquiring all the issued share capital.

The purchase consideration of US\$14 million was allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the effective date. No goodwill was recognised as part of the acquisition.

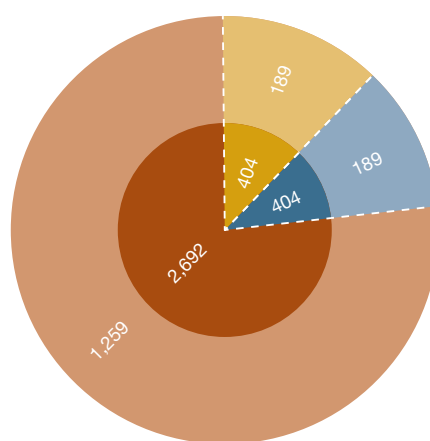
## Legal proceedings

During the second half of 2009 SIOC concluded the arbitration over Sishen South (Kolomela Mine) with ArcelorMittal. The Arbitration panel determined that ArcelorMittal is not entitled to demand equity participation in the Kolomela Mine, or any other future new development of SIOC. This significant conclusion to the arbitration process represents an important operating profit preservation for the group.

KUMBA VS MINING INDEX (based to 100 at the start)



CASH RETURNED TO BEE SHAREHOLDERS



Dividends 2006-2008

Dividends 2009

## Exxaro

- Total returned cash: R3,951 million

## Community trust

- Total returned cash: R593 million
- R23 million available for funding projects
- R570 million used to repay funding and interest

## Envision\*

- Total returned cash: R593 million
- R125 million paid to employees
- R468 million used to repay funding and interest

\* Broad-based employee share participation scheme

## Shareholder returns

### Share price

Kumba's share price has shown a marked increase in the year, growing 88% from the closing price of R162 at 31 December 2008 to R305 at 31 December 2009. Kumba outperformed the mining index of the JSE Limited during the year by some 41%.

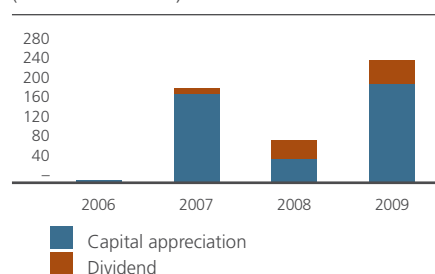
### Dividends

Attributable and headline earnings for the year were R21.88 per share and R21.82 per share respectively. The board reviewed the cash flow generation, growth plans and the capital structure of Kumba and approved a final dividend of R7.40 per share (interim dividend R7.20 per share), bringing the total dividend for the year to R14.60, thereby maintaining a dividend cover of 1.5 times earnings.

### Shareholder return

A shareholder who purchased a Kumba share on unbundling in November 2006 at R110 per share would have received R43.90 in dividends (including the 2009 final dividend of R7.40 per share) and earned R195 in capital appreciation until 31 December 2009, based on a closing price of R305 per share on this date.

CUMULATIVE SHAREHOLDER RETURN  
(RAND PER SHARE)



## Empowerment

Dividends paid by SIOC since 2006 has ensured that our BEE shareholders are now in the position to redeem substantial portions of their original funding. It is anticipated that the community development trust will have redeemed its full funding during 2010, only four years since the transaction, and will then own an unencumbered 3% of SIOC, which at current market values is approximately R3.5 billion.

Our employees who own 3% of SIOC through a broad-based employee share participation scheme have received R125 million in dividends over the past three years and the remaining R570 million of dividends received by the scheme has been used to reduce the original funding and interest. Over 5 000 employees currently participate in the scheme valued at approximately R2.3 billion after taking into account the scheme's funding.

Rand million	Total dividend 2009	Total dividend 2008
Dividend declared by SIOC	6,313	9,040
– Kumba	4,672	6,690
– Exxaro Resources	1,263	1,808
– SIOC Community Development SPV	189	271
– Envision	189	271

## Key factors affecting future operating results

### Export iron ore demand and price

Analyst forecasts indicate that global steel consumption should grow in excess of 5% per annum over the next three years, which would lead to increasing iron ore demand. Chinese demand for iron ore is expected to grow by at least 5% during 2010. With Chinese domestic iron ore production falling this has placed increased pressure on seaborne iron ore imports and spot prices. A further recovery outside of China is expected during 2010, which should increase the pressure on seaborne iron ore supply. Overall, the global seaborne iron ore market remains structurally tight. The growing demand for seaborne iron ore is also manifested in the sharp rise in steel scrap and spot iron ore prices, with the latter approaching a 100% premium to 2009 contract prices. Current market consensus indicates an increase in iron ore export prices for the 2010/2011 iron ore year.

### Iron ore sales volumes

The ramp-up of the jig plant continues during 2010 with total production from Sishen Mine expected to increase by ~5% for the year. The beginnings of a recovery in Kumba's traditional markets have been seen and return in demand from the South African market (domestic demand) is expected. As such the increase in export volumes in 2010 may only be marginal as domestic demand will offset the increases in production volumes. Domestic sales remain dependent on the level of demand from ArcelorMittal. Exports to China should normalise at around 60% of our geographical sales mix.



### Exchange rate

Kumba's revenue generated from the export of iron ore and shipping services is affected by the Rand/US Dollar exchange rate.

Relative to the US Dollar, the South African Rand has strengthened ~20% over the past year. Kumba's operating profit remains highly sensitive to the Rand/US Dollar exchange rate.

### Operating expenses

Kumba is committed to a further increase in production volumes during 2010, with the continued ramp-up of the Jig plant. Waste mining at Sishen Mine is anticipated to increase as the pit gets deeper and wider.

The first mining royalty is payable by Kumba's mining operations from the second quarter of 2010.

Management focus will be on asset optimisation initiatives, cost management and additional production and sales volumes to lessen the adverse effects of the cost pressures from an increase in waste mining.

### Change in accounting estimates

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

At 31 December 2009 management revised the estimate of the amount and timing of the closure cost of Sishen and Thabazimbi mines. The effect of these changes is detailed below:

Rand million	Environmental rehabilitation	Decommissioning	Total
Amount of the closure cost	57	63	120

The change in estimate in the environmental rehabilitation provision resulted in a decrease in attributable profit for 2009 of R43 million (effect on earnings per share 13.4 cents per share) after taking into account taxation of R21 million and minority interest of R11 million. The change in estimate in the decommissioning provision has been capitalised to the related property, plant and equipment.

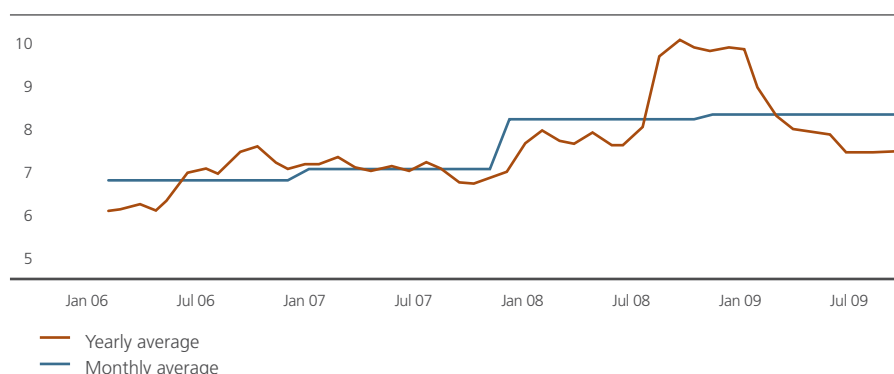
### Change in accounting policies

Kumba has elected to change its accounting policy in respect of the treatment of mineral waste stripping expenses in order to provide more reliable and relevant information about the effects of these costs on the entity's financial position and financial performance for the reporting periods, for the annual period commencing 1 January 2009.

### Waste stripping expenses

The removal of overburden or waste ore is required to obtain access to the ore body. To the extent that the actual waste material removed per tonne of ore mined (known as the stripping ratio) is higher than the average stripping ratio in the early years of a mine's production phase, the costs associated with this process are deferred and charged to operating costs using the expected average stripping ratio over the average life of the area being mined.

RAND/US DOLLAR EXCHANGE RATE





This reflects the fact that waste removal is necessary to gain access to the ore body and therefore realise future economic benefit. The average stripping ratio is calculated as the number of tonnes of waste material expected to be removed during the life of mine, per tonne of ore mined. The average life of mine cost per tonne is calculated as the total expected costs to be incurred to mine the ore body divided by the number of tonnes expected to be mined.

The cost of stripping in any period will therefore be reflective of the average stripping rates for the ore body as a whole. However, where the pit profile is such that the actual stripping ratio is below the average in the early years no deferral takes place as this would result in recognition of a liability for which there is no obligation. Instead this position is monitored and when the cumulative calculation reflects a debit balance deferral commences. The average life of mine stripping ratio and the average life of mine cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Changes in the life of mine stripping ratio are accounted for prospectively as a change in estimate.

During the development of a mine, before production commences, stripping expenses are capitalised as part of the investment in construction of the mine.

The change in accounting policy had no effect on the financial position or performance of the group due to the fact that Sishen Mine's pit profile is such that the actual stripping ratio is currently below the average life of mine stripping ratio and therefore no deferral is required.

The group adopted the following amendments to existing standards and new standard with effect from 1 January 2009.

#### IAS 1 (revised), Presentation of Financial Statements

The revised standard requires that changes in equity resulting from transactions with owners (holders of instruments classified as equity) be presented separately from non-owner changes in equity (also known as other comprehensive income). In addition specific disclosures for components of other comprehensive income have been introduced. The adoption had no effect on the financial position or performance of the group.

#### IFRS 8, Operating segments

IFRS 8 replaces IAS 14, 'Segment reporting', and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Kumba executive committee.

This has resulted in an increase in the number of reportable segments presented, as the previously reported business segment, mining (being mining, extraction and production of iron ore) has been split further into the different mines that the group operates as well as its shipping operations.

Right: One of Sishen Mine's new haul trucks being assembled on site. The mine acquired eight of these 254t capacity giants in 2009. The design of the trucks incorporates improved safety features, a pantograph support structure that is fully integrated into the chassis, an automatic anti-rollback feature and an improved braking system comprising combined electric braking and wet disc brakes.







# CORPORATE GOVERNANCE



Left: All ore exported by Kumba are sampled, tested, and blended to ensure that it conforms to customers' specifications.

# Corporate governance statement

## 1. Statement of compliance

Kumba is fully committed to the principles of the Code of Corporate Practices and Conduct (the code) set out in the King II Report on corporate governance (King II). The directors ensure that the affairs of the company are conducted within acceptable norms of ethical corporate conduct. The directors are therefore of the opinion that Kumba complied with, and has applied the requirements of King II during the 2009 financial year.

## 2. Application of the code

The code applies to all entities within the Kumba. The board annually reviews compliance with the spirit of the code and the company's corporate governance system. The board has noted the publication of the King III Report on corporate governance (King III) which will come into operation in March 2010 as well as the new provision of the Companies Act 61 of 1973 (Act). The board is currently reviewing all aspects of compliance with King III and is confident that compliance in all material respects will be achieved during 2010. The audit and risk committee of the board has completed a review of its terms of reference and work plan to incorporate its statutory duties in terms of the Act as well as the provisions of King III with respect to audit committees.

## 3. Changes to the board during 2009

There were no changes to the board during 2009. Subsequently to 31 December 2009, Dr Nkosana Moyo and Mr Philip Baum resigned as non executive directors on 12 January 2010. Mr David Weston was appointed as a non-executive director on 10 February 2010.

Non-executive directors on the Kumba board are appointed on a permanent basis. A third of the directors retire by rotation annually. If eligible, the names are submitted for re-election at the annual general meeting, accompanied by appropriate biographical details set out in the annual report. The board as a whole appoints directors including the chief executive on the recommendation of the human resources, remuneration and appointment committee (Remco).

A formal procedure applies to all appointments, which are subject to confirmation by the shareholders at the annual general meeting. Prior to the appointment, the prospective board appointee is subjected to a "fit and proper" test as required by the Listings Requirements of the JSE.

## 4. Role of the board

The board of directors is accountable to shareholders for the performance of the company. Its role includes:

- The establishment, review and monitoring of strategic objectives;
- Approval of major acquisitions, disposals and capital expenditure;
- Oversight of the company's systems of internal control, governance and risk management;
- Ensuring that the company acts and is seen to act as a responsible corporate citizen; and
- Cultivating and promoting an ethical corporate culture at Kumba.

While all directors have equal responsibility for directing the company's affairs, it is the role of the chief executive and executive committee to manage the business of the company within parameters laid down by the board and to produce clear, accurate and timely reports to enable the board to make informed decisions.

The board has, through its charter and the delegated authority framework, set aside matters which it cannot delegate.

The following matters are specifically reserved for the board:

- Reviewing the strategic direction of the company and adopting business plans proposed to achieve the company's objectives;
- Approving specific financial objectives, including budgets, and non-financial objectives and policies proposed by management;
- Overseeing the company's performance against agreed targets and objectives;
- Reviewing the process for management of business risk and ensuring there is an effective risk-based internal audit;
- Reviewing processes for ensuring compliance by the company with its key legal obligations;
- Reviewing the compliance framework and processes to ensure the company complies with the relevant laws, regulations and codes of best business practice;
- Delegating appropriate authority to the chief executive officer for capital





expenditure and reviewing investment, capital and funding proposals reserved for board approval in terms of the delegation policy set out in its charter;

- Appointing the chief executive officer and executive and non-executive directors on recommendation from Remco;
- Approving succession planning for key positions within the company;
- Providing leadership and vision in a way that will enhance value and ensure the long-term organisational health of the company;
- Ensuring the integrity of financial reporting and the full and timely disclosure of material matters concerning the company; and
- Reviewing the periodic going concern assessments of the company.

## 5. Board composition

In keeping with the recommendations of the code, the board comprises a majority of independent non-executive directors. Non-executive directors are considered to have the skills and experience to bring balanced and independent judgement to bear on company business. The board currently comprises, in addition to the chairman, two executive and seven non-executive directors, five of whom are independent according to the definition contained in the Corporate Laws Amendment Act. Independent directors and biographical details for each director appear on page 23.

	Board (5 meetings)	Audit & risk committee (4 meetings)	Safety & sustainable development committee (4 meetings)	Remco (4 meetings)
PL Zim	4	–	–	2
PM Baum	All	–	–	3
GS Gouws	All	–	–	–
CI Griffith	All	3*	All*	All*
PM Matlare	3	–	1	3
DD Mokgatle	All	All	All	–
AJ Morgan	All	All	All	All
ND Moyo	1	1	–	–
VP Uren	All	All*	–	–
ZBM Bassa	All	All	–	–

\* Attendees.

The board is chaired by Lazarus Zim, who is responsible for leading the board and for its effectiveness. The chief executive officer, Chris Griffith, is responsible for executing strategy and day-to-day management of the company, supported by the executive committee which he chairs.

## 6. Frequency and attendance of meetings

During the review period, the board met five times, the audit and risk committee four times, and the safety and sustainable development committee and Remco each met four times. The detail of directors' attendance of meetings is set out in the table above.

## 7. Induction and training

The company secretary arranges an appropriate induction programme for directors where required or when a new director is appointed. The programme includes visiting operations, and interviews with operational management to facilitate an understanding of the business. Corporate governance training, including an explanation of directors' fiduciary duties and continuing obligations of the Listings Requirements of the JSE is tailored for individual director's requirements. The company secretary provides directors with updates on legislative developments. Non-executive directors can, where necessary, obtain independent professional advice at the expense of the company.

The board conducted an independent external evaluation of its effectiveness during the year. The reason for an externally facilitated process was to ensure that a more thorough review of the performance of the board, using broader performance indicators and in-depth interviews with individual directors by experienced board performance specialists, was conducted. The board identified key focus areas to improve performance and these have been included in the board work plan for 2010.

## 8. Company secretary

The company secretary provides the board as a whole and the directors individually with guidance on discharging their responsibilities. He is also a source of information and advice to the board on matters of ethics and corporate governance. The company secretary maintains and regularly updates the corporate governance manual which is distributed to new directors, and ensures that the board and company comply with the Listings Requirements of the JSE.

## 9. Committees of the board

Subject to those matters reserved for its decision, the board delegates certain responsibilities to a number of standing committees: audit and risk; Remco; and safety and sustainable development. The terms of reference for each committee are published on the company's website.

### Human resources, remuneration and nominations committee (Remco)

Remco is responsible for making recommendations to the board on the appointment, remuneration policies and practices of the chief executive, executive committee members and senior management.

The committee makes recommendations to the board on the composition of the board and board committees and ensures that the board comprises suitably qualified individuals. It consults other directors in its evaluation of the chairman of the board, the chief executive and individual directors.

Remco normally meets four times each year and comprised Allen Morgan (chairman), Peter Matlare, Philip Baum and Lazarus Zim. Following the year end, Mr Baum resigned from the board and the committee.

### Safety and sustainable development committee (S&SD)

The S&SD committee is responsible for developing policies and guidelines to manage sustainable development, safety, health and environmental matters. The committee normally meets four times each year, including a visit to an operation. Mine managers are invited to attend committee meetings. The committee presently comprises: Dolly Mokgatle (chairman), Allen Morgan and Peter Matlare.

### Audit and risk committee

The primary role of the committee is to ensure the integrity of financial reporting and the audit process, and that a sound risk management process and effective systems of internal controls are maintained. In accordance with the Corporate Laws Amendment Act, the audit and risk committee report is included on page 19 of this corporate governance statement.

### Executive committee

The executive committee is not a sub-committee of the board. It is responsible for implementing the strategies and policies determined by the board, managing the business and affairs of the company, prioritising the allocation of capital, technical and human resources and establishing best management practices.

The executive committee is also responsible for senior management appointments and monitoring their performance and acts as the company's risk committee for the purpose of reviewing and monitoring Kumba's systems of internal control. The membership of this committee consists of the executive directors, executive heads, the mine general managers and the company secretary.

# Audit committee report to shareholders

## 1. Introduction

The audit committee comprises the following independent non-executive directors:

- ZBM Bassa (Chairman);
- AJ Morgan;
- DD Mokgatle; and
- ND Moyo.\*

\* Resigned on 12 January 2010

In addition to the committee members above, the chief executive officer and chief financial officer attend meetings of the committee.

## 2. Background

The committee is pleased to present its report for the financial year ended 31 December 2009 as recommended by the King II report on Corporate Governance and in line with the Companies Act 61 of 1973, as amended (the Act).

## 3. Companies Act 61 of 1973 (the Act) and King III compliance

The committee commenced the review of its terms of reference and workplan in order to comply with the relevant provisions of the Act and King III recommendations with respect to audit committees. The review process involved the following:

- A half day training session on the new provisions offered by the Institute of Directors;
- A gap analysis was conducted, and recommendations made by the company secretary, internal and external auditors. Of particular importance was the review of Kumba's combined assurance model and IT governance framework.
- Amended terms of reference and workplan were approved by the committee and the board in February 2010.

The 2010 audit committee report will report fully on its compliance with the provisions of the Act and King III.

## 4. Duties carried out in 2009

During the financial year ended 31 December 2009 the audit committee carried out its duties as set out in the King II Report, the Act, and the committee's terms of reference and in accordance with its annual plan. As an overview only, and not to be seen as an exhaustive list, the committee:

- Reviewed the group financial statements and declaration of compliance with statutory requirements;
- Reviewed the appropriateness of the group's dividend policy and made recommendations to the board;
- Reviewed the interim reports, results announcements, dividend recommendations and release of price sensitive information;
- Reviewed the going concern assessments by management and made recommendations to the board.
- Reviewed quality and effectiveness of internal audit process;
- Reviewed the external auditor's management letters and management responses;
- Reviewed significant judgements and unadjusted differences resulting from the audit, as well as any reporting decisions made;
- Monitored compliance with accounting standards and legal requirements;
- Reviewed and were satisfied that the external auditors and engagement partner were independent;
- Nominated the reappointment of the external auditors and engagement partner;
- Ensured that the appointments of the external auditors complied with all relevant legislation;

- Determined the fees to be paid to the external auditors and ensured that they were fair and equitable;
- Maintained a non-audit services policy;
- Reviewed and were satisfied with the process of risk management and monitoring of legal governance compliance within the company and ensured that the combined assurance model addressed the significant risks within the company including:
  - Financial risks;
  - Internal financial controls; and
  - Fraud risks; and
- Oversaw the effectiveness of the internal audit function.

## 5. Annual financial statements

The audit committee has evaluated the consolidated annual financial statements for the year ended 31 December 2009 and concluded that it complies, in all material aspects, with the requirements of the Act and International Financial Reporting Standards. The committee has therefore recommended the approval of the annual financial statements to the board.

## 6. Conclusion

Given the above, the committee is of the opinion that it has appropriately addressed its key responsibilities in respect of:

- Internal control;
- Financial accounting control; and
- Stakeholder reporting.



ZBM Bassa

# Risk management

## Risk philosophy

Kumba maintains an integrated, enterprise-wide, risk management programme (IRM). Kumba applies a logical, systematic and repetitive methodology to identify, analyse, assess, mitigate and monitor all risks, whether they are significant or not.

The effectiveness of the IRM process is measured by how well it aligns the key fundamentals of governance, business objectives, ethics, policies, standards, strategies and compliance. Kumba recognises the complexity and diversity of risks that face its operational activities and integrates all efforts to maximise opportunities and minimise exposures to risk and to reduce them, where necessary, to levels commensurate with its risk appetite.

## Risk culture

Kumba's policy is zero tolerance for compliance failures and its aim is to identify and to rectify any deviation. Promoting a risk-conscious culture is a focus throughout the group and this culture proactively supports achieving our strategic business objectives. Each risk owner is responsible for monitoring the existing and ever-changing risk profile of Kumba.

To this end, a monthly and quarterly risk review that covers both internal and external risks has been instituted with findings reported to the executive committee and the audit and the risk committee.

Through the continuous risk assessment process, divisional and business unit risk committees play an important role in identifying operational and strategic risks

and also the development and application of generic mitigating strategies. They also have a risk oversight function by virtue of being closer to activities that could have adverse results.

## Risk management objectives

The risk management process is continuous, with well-defined steps, which support decision-making by contributing a greater insight into risks and their impact. Risks from all sources are identified and once they pass the materiality threshold, a formal process begins in which causal factors and consequences are identified and the correlation with other risks and the current risk mitigating strategy is reviewed. One of the challenges is to ensure that mitigating strategies are geared to deliver reliable and timely risk information to support decision-making.

## Reporting

Continuous monitoring of risk and control processes, across headline risk areas and other business specific risk areas, provides the basis for regular and exception reporting to the executive committee, audit and risk committee and the board.

The headline risk areas are:

- Foreign exchange
- Commodity prices fluctuations and iron ore demand
- Employee safety and health
- Environmental
- Social
- Legal and regulatory

- Reserves and resources
- Operational performance
- Mining exploration and projects
- Logistics infrastructure

The risk assessment and reporting criteria are designed to provide the executive committee and the board, via the audit and risk committee, with a consistent, enterprise-wide perspective of the key risks. The reports which are submitted monthly to the executive committee and quarterly to the audit and risk committee include an assessment of the likelihood and impact of risks materialising, as well as risk mitigating initiatives and their effectiveness.

In conducting its annual review of the effectiveness of risk management, the board considers the key findings from the ongoing monitoring and reporting processes, management assertions and independent assurance reports. The board takes into account material changes and trends in the risk profile and considers whether the control system, including reporting, adequately supports the board in achieving its risk management objectives.



# Risk factors

Kumba's financial position, results of operation, growth, strategies and dividend policy could be materially adversely affected by risks, including any of those set out below.

The risks described below are not the only risks faced by Kumba. Currently, un-identified risk factors and risks deemed less material by directors may also impair operations.

## Foreign exchange

The group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise which may expose it to economic or accounting losses. Kumba's iron ore export prices and shipping services are determined in US Dollars and the company negotiates iron ore prices in that currency with customers. Currency movements of the US Dollar against the Rand therefore could have a significant effect on the financial position and results of Kumba.

## Regulatory

Mining operations, development and exploration are subject to extensive legislation and regulations. Changes in this regulatory environment could increase Kumba's cost of production and failure to comply could result in the revocation of consents, licenses and rights it requires to conduct its business.

## Operational performance

The mining operations of Kumba are subject to the risks and hazards normally encountered in open-pit mining operations. These risks include environmental hazards, such as unexpected geological pressures and ground subsidence, and operational risks relating to materials handling, industrial accidents, blasting and removing material from open pits. If any of these risks should materialise, such an event could result in serious harm to employees and contractors and delays or losses in production. Failure to meet production targets could result in increased unit costs.

## Mining exploration and projects

Kumba seeks to develop new mining properties and expand its existing operations as a means of generating shareholder value. New mining properties are identified through an active exploration programme while current operations are expanded by technological applications to beneficiate medium-grade iron ore.

This capability will cover internal levers (delivery on projects) and external constraints, ensuring that "new tonnes" reach customers on or ahead of schedule. The associated challenge of this opportunity is to bring growth projects on stream, on time and below budget. Resource exploration and development are speculative in nature, characterised by a number of significant risks. Unanticipated delays and project execution complications along with increasing regulatory, environmental and social approvals may result in significant increases in construction costs and/or delays in construction.

These increases/delays could materially and adversely affect the economics of projects and consequently impact on Kumba's asset values, costs, earnings, cash flows and prospects.

## Employee safety and health

Mining is a hazardous industry and failure to adopt high levels of safety management can result in a number of negative outcomes; harm to employees and communities that live near Kumba's mines as well as fines and penalties, liability to employees and third party for injury. Kumba operates in an industry that is subject to numerous safety regulations. Failure to provide a safe working environment may expose the organisation to compensation liabilities, loss of business reputation and other costs. Evolving regulatory standards and expectations can result in increased litigation and costs, all of which can have a material effect on earnings and cash flows. Kumba's commitment to Zero Harm continues to deliver visible achievements. The group improved on its safety performance during the year at existing operations, with only 10 lost-time injuries ('LTI's') being recorded.

The HIV/Aids prevalence in South Africa is high and may adversely impact on the operations of Kumba through reduced productivity, general medical costs and absenteeism.



### Commodity price fluctuations and iron ore demand

Fluctuations in iron ore prices can occur due to sustained price shifts reflecting underlying global economic and geo-political factors, industry demand and supply balances and product substitution. Kumba's products are influenced strongly by world economic growth, particularly that in Europe and Asia. The Chinese market has become a significant source of global demand for commodities. Whilst this increased demand represents a significant business opportunity, Kumba's exposure to China's economic fortunes and economic policies has increased.

Global steel demand in 2010 is forecast to grow in excess of 5%, leading to increasing iron ore demand. Chinese demand for iron ore is expected to rise further during 2010 and its share of the global seaborne iron ore demand is expected to grow. With a further recovery outside of China expected during 2010, the pressures on seaborne iron ore supply continue to rise. Overall, the global seaborne iron ore market remains structurally tight. The growing demand for iron ore is also manifested in the sharp rise in steel scrap and spot iron ore prices, with the latter approaching a 100% premium to 2009 contract prices.

### Logistics infrastructure

While Kumba does not own or operate any of its logistical assets, it exports iron ore to international customers through a single channel rail and port. Labour and other operational risks associated with managing the rail and port operators' assets fall outside Kumba's direct control. Inadequate support facilities, services, installations (water, power and transportation) may affect the sustainability or growth of the business, leading to a loss of competitiveness, market share and reputation.

### Environment

Costs associated with rehabilitating land disturbed during the mining process and addressing environmental, health and community issues are estimated and provided for based on the most current information available. Estimates may, however, be insufficient and further issues may be identified. Any under-estimated or unidentified rehabilitation costs will reduce earnings and could adversely affect Kumba's asset values, earnings and cash flows. The operations of Kumba are subject to environmental legislation and regulations. If any of the legislation or regulations should be changed, Kumba's production cost could be increased.

### Social

In considering the needs and quality of life of our community stakeholders, Kumba is in discussions with elected representatives of the Dingleton townships (28km from Kathu) and Northern Cape Provincial Government, to develop a mutually beneficial solution to issues arising from the community's proximity to the mining operation at Sishen Mine.

### Employees

Kumba is, to a great extent, reliant on a large number of people employed in its operations. Despite Kumba's good relations with bargaining unit employees and their trade unions, we remain exposed to risks as a unionised operation posed by organised labour disruptions and disputes. There has been an industry-wide shortage of experienced professional and technical skills across the board, both internally and in terms of contractors. The retention of artisans and other technical skills is critical for Kumba's current operations and expansion plans. The current economic slowdown is likely to mitigate the risk somewhat.



## Board of directors

### Lazarus Zim Chairman (49)

MCom, DCom (hc)

Lazarus Zim is the chairman of Mvelaphanda Resources, Northern Platinum and Afripalm Resources. Previously, Lazarus was chief executive of Anglo American South Africa and managing director of MTN International.

### Chris Griffith Chief executive officer (45)

BEng (Mining) (Hons), Pr Eng

Chris was previously the executive head of joint ventures for Anglo Platinum Limited. Chris has over 19 years of mine management experience. He was previously general manager of Anglo Platinum's Amandebug Platinum Mine and Bafokeng Rasimone Platinum Mine.

### Vincent Uren Chief financial officer (48)

BCom, CTA, CA(SA)

Vincent has 20 years' experience in corporate finance, many of these gained with the Anglo American plc group where he was involved in a number of diverse and complex local and international transactions.

### Philip Baum\*\* Non-executive director (55)

BCom, LLB, HDip Tax Law

Philip was chief executive officer of Anglo American's Ferrous Metals and Industries division. He was a member of Anglo American plc's executive committee. Other directorships include Minas RIO, Tongaat-Hulett, Hulamini and Samancor Manganese.

### Allen Morgan Independent non-executive director (62)

BSc, BEng (Elect), Pr Eng

Allen is a non-executive director of Eskom Holdings and served as the Eskom chief executive between 1994 and 2000. He previously served as the chairman of Kumba Resources.

### Gert Gouws Non-executive director (51)

BCom (Law), BCom (Hons), CA(SA), FCMA

Gert is the chief financial officer and alternate director of the Industrial Development Corporation. He is also a director of Herculite Ferrochrome, Algorax and Umicore Autocat South Africa.

### Dolly Mokgatle Independent non-executive director (53)

BProc, LLB, HDip Tax Law

Dolly is an executive director of the Peotona group. She is chairman of EDI Holdings and deputy chairman of the National Energy Regulator of South Africa (NERSA). She also holds several other corporate directorships. She was the chief executive officer of Spoornet and managing director of transmission at Eskom.

### Peter Matlare Independent non-executive director (50)

BSc (Hons) (Political Science),  
Masters (Southern African Studies)

Peter is chief executive officer of Tiger Brands. He was chief strategy and business development director in the Vodacom Group.

His previous positions include commercial director of Vodacom South Africa, and chief executive officer of the SABC.

### Zarina Bassa Independent non-executive director (46)

BAcc, CA(SA)

Zarina is the chief executive officer of Zarina Bassa Investments and serves as a director on a number of private and public institutions. She was previously an executive director at Absa Bank and a member of the Absa Group executive committee, with accountability for private banking and retail banking services. She has previously also served as the vice chairman of Absa Retail Bank. Prior to joining Absa, she spent 17 years with Ernst & Young and was appointed a partner in 1986.

### Nkosana Moyo\*/\*\* Independent non-executive director (58)

PhD (Physics), MBA

Nkosana is the vice-president and chief operating officer of the African Development Bank. He was a partner at Actis Capital LLP Africa. He also worked for the International Finance Corporation in Washington DC and served as Zimbabwe's Minister for Industry and Trade.

\* Zimbabwean.

\*\* Resigned with effect from 12 January 2010.



# ANNUAL FINANCIAL STATEMENTS



Left: A capesize vessel at anchor in the Saldanha deep water port awaiting its load of iron ore.

# Directors' responsibility for financial reporting

## for the year ended 31 December 2009

The directors are responsible for:

- The preparation and fair presentation of the annual financial statements of the Kumba group (the group) as well as Kumba Iron Ore Limited (the company), in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa and the Listings Requirements of the JSE Limited, which include amounts based on judgements and estimates made by management.

The annual financial statements comprise the balance sheets at 31 December 2009; the income statements, the statements of other comprehensive income, the statements of changes in equity and the cash flow statements for the year then ended; the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes; and the directors' report;

- Maintaining adequate accounting records and an effective system of risk management;
- Developing, implementing and maintaining a sound system of internal control relevant to the preparation and fair presentation of these financial statements that provide reasonable but not absolute assurance against material misstatement or loss, whether owing to fraud or error;
- Selecting and applying appropriate accounting policies;
- Making accounting estimates that are reasonable in the circumstances;
- Safeguarding shareholders' investments and the group's assets; and
- Preparing the supplementary schedules included in these financial statements.

The directors, primarily through the audit committee, meet periodically with the external and internal auditors as well as the executive management to evaluate matters concerning the above responsibilities.

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

The independent external auditors are responsible for reporting on whether the group annual financial statements and the company annual financial statements are fairly presented in accordance with the applicable financial reporting framework. Their report to the shareholders of the group and the company is set out on page 28 of this report.

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

The directors are not aware of any material breakdown in the functioning of these controls and systems during the year under review. The directors are of the opinion, based on the information and explanations given by management and the internal auditors, that the internal accounting controls are adequate, so that the financial records may be relied on for preparing the annual financial statements and maintaining accountability for assets and liabilities.

In the light of the current financial position and existing borrowing facilities as well as the group's financial budgets with their underlying business plans for the period to 31 December 2010, the directors consider it appropriate that the annual financial statements be prepared on the going-concern basis.

### Approval of the group annual financial statements and the company annual financial statements

The group annual financial statements on pages 29 to 97 and the annual financial statements of Kumba Iron Ore Limited on pages 98 to 106, as identified in the first paragraph, were approved by the Kumba board of directors on 17 February 2010 and are subject to the approval by the shareholders at the annual general meeting on 31 March 2010. The group and company annual financial statements are signed on the directors' behalf by:



**PL Zim**  
Chairman



**CI Griffith**  
Chief executive officer



**VP Uren**  
Chief financial officer

17 February 2010



## Certificate of the company secretary

I, VF Malie, in my capacity as company secretary, confirm that, for the year ended 31 December 2009, Kumba Iron Ore Limited has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act 61 of 1973 of South Africa, as amended, and that all such returns are true, correct and up to date.



**VF Malie**

Company secretary

17 February 2010

# Independent auditor's report to the shareholders of Kumba Iron Ore Limited

We have audited the group and company annual financial statements of Kumba Iron Ore Limited, which comprise the balance sheet and the consolidated balance sheet as at 31 December 2009, the income statement and the consolidated income statement, the statement of other comprehensive income and the consolidated statement of other comprehensive income, the statement of changes in equity and the consolidated statement of changes in equity and the cash flow statement and the consolidated cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 29 to 106.

## Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group as at 31 December 2009, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.



## Deloitte & Touche – Johannesburg

Registered Auditors

## Per BW Smith

Partner

17 February 2010

Buildings 1 and 2, Deloitte Place

The Woodlands Office Park Woodlands Drive

Sandton

## National Executive:

GG Gelink *Chief Executive*; AE Swiegers *Chief Operating Officer*; GM Pinnock *Audit*; DL Kennedy *Tax & Legal and Financial Advisory*; L Geeringh *Consulting*; L Bam *Corporate Finance*; CR Beukman *Finance*; TJ Brown *Clients & Markets*; NT Mtoba *Chairman of the Board*

*A full list of partners and directors is available on request*

B-BBEE rating: Level 3 contributor/AA (certified by Empowerdex)

Member of Deloitte Touche Tohmatsu



# Directors' report

(Company registration number 2005/015852/06)

The directors have pleasure in presenting the annual financial statements of the Kumba group (the group) as well as Kumba Iron Ore Limited (the company) for the year ended 31 December 2009.

## Nature of business

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

Kumba is a mining group of companies focusing on the exploration, extraction, beneficiation, marketing, sale and shipping of iron ore. Kumba produces iron ore in South Africa at Sishen Mine in the Northern Cape Province and at Thabazimbi Mine in the Limpopo Province, and is currently developing a new mine, Kolomela Mine, also in the Northern Cape Province.

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

## Corporate governance

The group subscribes to the Code of Good Corporate Practices and Conduct as contained in the King II report on corporate governance and the board has satisfied itself that Kumba has complied throughout the year in all material aspects with the code and the Listing Requirements of the JSE Limited. The corporate governance report is set out on pages 15 to 23.

## Financial results

The financial statements on pages 29 to 106 set out fully the financial position, results of operations and cash flows of the group and company for the financial year ended 31 December 2009.

### Operating results for the year

Summary of the key financial results for the year ended 31 December:

Rand million	2009	2008	% Increase/ (decrease)
Revenue	<b>23,408</b>	21,360	10%
Operating profit	<b>12,880</b>	13,513	(5%)
Net finance costs	<b>(127)</b>	(251)	49%

Kumba's revenue increased by 10% to R23.4 billion on the back of a 37% increase in export sales volumes driven by demand from China, tempered by lower export volumes to Europe and Japan, lower domestic sales and lower iron ore export prices.

Operating profit decreased by 5% or R633 million, principally as a result of:

- Increased export sales volumes added R6.6 billion to operating profit; offset by the year-on-year weighted average decrease of 40% in benchmark export iron ore prices, which reduced operating profit by R5.4 billion; and lower domestic sales volumes due to the decline in domestic demand, which reduced operating profit by R377 million. The net effect of these factors was an increase in operating profit of R0.8 billion;
- A R308 million increase in profit from shipping operations. Total tonnes shipped increased by 15.3Mt from 6.2Mt to 21.5Mt during 2009. This increase in volume was offset by a decrease in the shipping margin achieved (average shipping margin – US\$3/tonne in 2009). The unused portion of the provision raised in 2008 amounting to US\$22.8 million (R191 million) was released during the year;
- The weakening of the average exchange rate of the Rand to the US Dollar (average exchange rates – R8.39/US\$1.00 in 2009 compared with R8.25/US\$1.00 in 2008), which contributed R301 million to operating profit, and lower net valuation gains over 2008 from US\$ denominated monetary assets and derivative instruments, which reduced operating profit by R665 million;
- All of which was further offset by a R1.4 billion or 36% increase in operating expenses (excluding shipping expenses), as a result of the 35% increase in waste mined, 14% increase in volumes produced, and a 36% increase in logistics costs primarily driven by increased sales volumes during the year. This increase was further fuelled by inflation and offset by decreasing cost of diesel and blasting products and strict cost management.

Kumba's operating profit margin of 55% for the year (61% from mining activities) decreased by 8% from 63% (69% from mining activities) in 2008 as benchmark export iron ore prices decreased on average by 40% for the 2009/2010 iron ore year.

Attributable and headline earnings for the year were R21.88 (2008: R22.80) per share and R21.82 (2008: R23.02) per share respectively. Refer to note 20, 'Per share information', of the group annual financial statements for a detailed discussion and analysis of movements in the group's basic, diluted, headline and diluted headline earnings per share.

# Directors' report

(Company registration number 2005/015852/06) (continued)

## Financial position

Summary of the financial position as at 31 December:

Rand million	2009	2008	% Increase/ (decrease)
Total assets	<b>17,807</b>	16,703	7%
Interest-bearing borrowings	<b>3,914</b>	3,858	1%
Net asset value per share (R)	<b>22.73</b>	21.63	5%

## Property, plant and equipment

The group incurred capital expenditure on property, plant and equipment of R4.0 billion for the year ended 31 December 2009 (2008: R2.6 billion) for the expansion of its operations (R2.8 billion), mainly on the development of Kolomela Mine (Sishen South Project) (R2.5 billion), and R1.2 billion to maintain its operations, mainly for the acquisition of mining equipment for Sishen Mine.

## Capital expenditure – Kolomela Mine (Sishen South project)

The development of the Kolomela Mine continues and remains on budget and on schedule to deliver first production during the first half of 2012, ramping up to full capacity of 9Mtpa in 2013. Construction on the project is progressing well and mining operations commenced after the first blast on 17 September 2009.

To date 4Mt of material has been moved, project engineering is substantially complete and significant progress has been made on manufacturing and construction. In aggregate, R3.2 billion of capital expenditure (including R189 million of capitalised mining operating expenses) has been incurred to date, of which R2.5 billion was incurred during the year ended 31 December 2009 (2008: R702 million).

## Interest-bearing borrowings

	31 Dec 2009	31 Dec 2008
Net debt (R million)	<b>3,023</b>	48
Interest cover (times)	<b>43</b>	33

The group's net debt position at 31 December 2009 is shown before the payment of the 2009 final dividend.

During the year Kumba secured a R3.2 billion term loan to refinance the revolving facility that was maturing in November 2009. To date R3.9 billion of the R8.6 billion term debt facilities has been drawn down to finance Kumba's expansion. Kumba was not in breach of any of its covenants during the year. The group had undrawn term facilities of R4.7 billion and undrawn uncommitted facilities of R3.4 billion at 31 December 2009.

## Equity compensation plans

Refer to the detailed remuneration report on pages 33 to 41 and note 22, 'Equity-settled share-based payment reserve', of the group annual financial statements for a detailed discussion and analysis of movements in the group's various equity compensation plans available to executive directors and senior employees.

## Accounting policies

Kumba changed its accounting policy in respect of the treatment of waste stripping costs in order to provide more reliable and relevant information about the effects of these costs on the entity's financial position and financial performance. The change in accounting policy had no effect on the financial position or performance of the group during 2009 due to the fact that Sishen Mine's pit profile is such that the actual stripping ratio is currently below the average life of mine stripping ratio and therefore no deferral is required.

The group adopted IFRS 8, Operating Segments, which replaces IAS 14, Segment reporting, and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented, as the previously reported business segment, mining (being mining, extraction and production of iron ore) has been split further into the different mines that the group operates as well as its shipping operations.

The group also adopted IAS 1 (revised). The revised standard requires that changes in equity resulting from transactions with owners (holders of instruments classified as equity) be presented separately from non-owner changes in equity (also known as other comprehensive income). In addition, specific disclosures for components of other comprehensive income have been introduced. The adoption had no effect on the financial position or performance of the group.



## Segment results

Refer to note 37 for a detailed segmental analysis of the group's operating results for the year ended and financial position as at 31 December 2009.

## Subsidiaries, joint ventures and associates

Full particulars of the group's investments in subsidiaries, associates and joint ventures are set out in annexures 1 and 2.

## Acquisition during the year

On 15 July 2009 Sishen Iron Ore Company (Pty) Limited (SIOC) acquired Taurus Investments SA, an Anglo American company incorporated in Luxembourg, for a cash consideration of R115 million (US\$14 million). This company was acquired to extend the benefit of the group's offshore operations by creating a European marketing hub to service the European, Middle East and North African markets as well as to establish collaboration with Anglo American plc's current operations in Luxembourg. Taurus was renamed Kumba International Trading SA.

The effective date of this transaction was 15 July 2009, as this is the date on which SIOC effectively obtained control by acquiring all the issued share capital.

The purchase consideration of US\$14 million was allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the effective date. No goodwill was recognised on the acquisition.

## Share capital

### Authorised capital

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

### Share movements

The group acquired 325,707 of its own shares through purchases on the JSE Limited during the year. The total amount paid to acquire the shares was R60 million. The shares have been utilised in the allocation of conditional share awards under the Kumba Bonus Share Plan. The shares are held as treasury shares and the purchase consideration has been deducted from equity.

On 21 August 2009 Kumba issued 953,660 shares to the management share option scheme. Options exercised under the management share option scheme during the year to 31 December 2009 resulted in 2,610,960 shares being issued (2008: 2,207,840 shares) with exercise proceeds of R132 million (2008: R75 million).

### Unissued shares

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

## Dividends

An interim dividend of R7.20 per share was paid on 24 August 2009. A final dividend of R7.40 per share was declared on 17 February 2010 from profits accrued by the group during the financial year ended 31 December 2009. The total dividend for the year amounted to R14.60 per share.

The estimated total cash flow of the final dividend of R7.40 per share, payable on 15 March 2010, is R2.4 billion.

The board of directors is satisfied that the capital remaining after payment of the final dividend is sufficient to support the current operations and to facilitate future development of the business.

## Directors

The names of the directors in office during the year and at the date of this report are set out on page 23. The remuneration and fees of directors as well as the directors' beneficial interest in Kumba are set out in the detailed remuneration report on pages 33 to 41.

Dr ND Moyo and Mr PM Baum resigned as non-executive directors on 12 January 2010. Mr DM Weston, Anglo American plc's Group Director of Business Performance and Projects, was appointed as a non-executive director on 10 February 2010.

The following directors retire by rotation in terms of the articles of association but are eligible and offer themselves for re-election as directors:

- DD Mokgatle
- DM Weston
- GS Gouws

# Directors' report

(Company registration number 2005/015852/06) (continued)

## Holding company and related parties

Anglo American plc, incorporated in the United Kingdom, is the group's ultimate holding company. The effective interest in the group of 62.76% is held through Anglo South Africa Capital (Pty) Limited (53.06%) and Stimela Mining Holdings (Pty) Limited (9.70%).

The analysis of ordinary shareholders is given on pages 109 to 111.

## Auditors

Deloitte & Touche continued in office as auditors of Kumba and its subsidiaries. At the annual general meeting on 31 March 2010, shareholders will be requested to re-appoint Deloitte & Touche auditors of Kumba for the 2010 financial year, and BW Smith as the designated auditor.

## Company secretary

The company secretary of Kumba is VF Malie. His business and postal addresses appear on the inside back cover.

## Going concern statement

The directors have reviewed the group's and company's financial budgets with their underlying business plans for the period to 31 December 2010. In the light of the current financial position and existing borrowing facilities, they consider it appropriate that the annual financial statements be prepared on the going-concern basis.

## Management by third parties

None of the businesses of the company or its subsidiaries had, during the financial year, been managed by a third party or a company in which a director had an interest.

## Special resolution

On 20 March 2009 the shareholders of Kumba resolved that the company and any of its subsidiaries may from time to time be authorised to acquire of the company's own shares subject to the articles of association of the company, the provisions of the Companies Act and the Listings Requirements of the JSE.

## Legal proceedings

### ArcelorMittal SA Limited (ArcelorMittal)

An award was rendered in the arbitration between ArcelorMittal and SIOC, a subsidiary of Kumba. The arbitration related to ArcelorMittal's claim to be entitled to participate in the Kolomela Mine (Sishen South Project) currently under development by SIOC. On 27 October 2009, the Arbitration Panel issued an award in favour of SIOC and determined that ArcelorMittal is not entitled to participate in the project.

### Lithos Corporation (Pty) Limited (Lithos)

Lithos is claiming US\$421 million from Kumba for damages. Kumba continues to defend the merits of the claim and is of the view and has been so advised, that the basis of the claim and the quantification thereof is fundamentally flawed. A trial date has been provisionally allocated, being 8 March 2010 to 2 April 2010. No liability has been recognised for this litigation.

### La Société des Mines de Fer du Sénégal Oriental (Mifereso)

Kumba initiated arbitration proceedings against Mifereso and the Republic of Senegal under the Rules of Arbitration of the International Chamber of Commerce. The arbitration hearings took place during the third quarter of 2009. A ruling on the matter is expected during the first half of 2010.

## Post-balance sheet events

On 6 January 2010, the SIOC Community Development SPV (Proprietary) Limited redeemed R336 million out of the total preference shares of R458 million issued to Kumba on 29 November 2006 as part of the group's funding of the acquisition of a 3% interest in SIOC. In preparing the consolidated annual financial statements for the year ended 31 December 2009, the SIOC Community Development SPV (Proprietary) Limited is considered a special purpose entity, is consolidated for accounting purposes and will continue to be consolidated until the funding is redeemed in full.

During January 2010 Kumba issued financial guarantees to the Department of Mineral Resources (DMR) to the value of R567 million in respect of the environmental rehabilitation and decommissioning obligations of the group.

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





# Remuneration report

## for the year ended 31 December 2009

### Kumba's remuneration philosophy

The human resources, remuneration and nominations committee ensures that the principles of accountability and transparency are applied and that remuneration is linked to performance and that they support the business strategy. The overall remuneration philosophy remains unchanged from prior years; however, certain aspects with respect to the components of the reward programmes have been reviewed and amended during 2009.

The following remuneration philosophy is applied by Kumba:

- To motivate and reinforce the performance of individuals;
- To attract and retain talented people;
- To compete in the marketplace with the intention of being a preferred employer as a key element in supporting the implementation of Kumba's business strategy; and
- To apply it equitably, fairly and consistently in relation to job responsibility, the employment market and personal performance.

The board believes that a properly constituted and effective remuneration committee is key in improving the link between directors and executive committee members' pay and performance, with the ultimate aim to add value to shareholders.

This report describes the remuneration policy and directors and executive members' remuneration for the 2009 financial year and includes:

- A description of the human resources, remuneration and nominations committee (the Remco), its members, its role and activities during 2009;
- An overview of the group's remuneration policy and practice and how the policy links into the company's business strategy;
- A description of the key elements of the remuneration package – salary, benefits, pension, short-term incentives and long-term incentives - and information relating to 2009 payments;
- Details of the executive directors' contracts of employment;
- Details of fees paid to non-executive directors;
- Details of the remuneration paid to executive committee members; and
- Details of the various long-term incentive schemes.

During 2009, in addition to attending to regular matters, the committee focused specifically on:

- The introduction of the Bonus Share Plan for executive directors and senior employees replacing the Long-Term Incentive Plan, the Share Appreciation Rights Scheme and the Deferred Bonus Plan; and
- The continued appropriateness of the current reward programmes given volatile market conditions, pay for performance strategy, performance against targets set and the group's performance.

### The remuneration committee

This committee functioned as a sub-committee of the Kumba board since Kumba's listing in November 2006. It focuses its activities on the group's remuneration policy, the determination of levels of remuneration and short- and long-term incentive plans.

The role of the remuneration committee is to:

- Provide guidance on the evaluation of the performance of executive directors;
- Review and approve targets and objectives for all performance related remuneration schemes for executive directors and executive committee members and approve payments under these schemes;
- Review and recommend to the board the remuneration of executive directors and executive committee members including short- and long-term incentives;
- Approve principles on which short-term incentives for all staff are based;
- Approve the formulae on which all grants pursuant to Kumba's long-term incentive schemes to staff are based;
- Approve the overall cost of remuneration increases awarded to staff; and
- Approve the overall cost of short- and long-term incentives awarded to staff.

During the year the members of the committee were: Mr AJ Morgan, Mr PB Matlare, Mr PM Baum and Mr PL Zim. Mr AJ Morgan, an independent non-executive director, is chairman of the committee. Mr PM Baum resigned as a member with effect from 12 January 2010. The chief executive officer of Kumba and other members of management attend the meetings of the committee at the request of the committee, but they are requested to leave the meeting prior to decisions being taken.

# Remuneration report

## for the year ended 31 December 2009 (continued)

The remuneration committee considers external market surveys on remuneration matters and the interests of shareholders when deliberating on the remuneration of directors and senior management.

In applying agreed remuneration principles, the remuneration committee is committed to principles of accountability, transparency and good governance, as well as to ensuring that the reward arrangements are linked to individual and group performance and that they are in support of the business strategy.

The committee meets at least four times a year and is empowered to obtain such external or other independent professional advice as it considers necessary to carry out its duties.

The committee met four times during the year. Attendance at meetings was as follows:

Member	3 Feb 2009	12 May 2009	13 Aug 2009	11 Nov 2009
AJ Morgan	✓	✓	✓	✓
PB Matlare	✓	A	✓	✓
PM Baum	✓	✓	✓	✓
PL Zim	A	✓	A	✓

✓ – Indicates attendance.

A – Indicates absence with apology.

Kumba's application of remuneration practices and programmes:

- Aims to provide competitive market-related rewards in the specific labour markets in which Kumba's employees are employed;
- Determines the value proposition of the various positions within job families or functions;
- Ensures that performance management influences the remuneration components and incentives; and
- Applies good governance to remuneration practices within approved structures.

Overview of the group's remuneration programmes:

Element	Fixed/ Variable	Objective	Delivery
Salary	Fixed	Reflects scope and nature of role, performance and experience	Cash
Non-monetary benefits	Variable	Provision of non-monetary items	Benefits in kind
Pension	Fixed	Provision of retirement benefits	Contribution to pension and provident funds
Short-term incentives	Variable	Rewards and motivates achievement of agreed group performance objectives	Cash of up to a maximum of 60% of basic employment cost for stretch target achievement
Long-term incentives	Variable	Alignment with shareholder interests and creation of long-term value	Shares or cash at the discretion of the board

### Directors' fees and remuneration

The directors are appointed to Kumba's board based on their ability to contribute competencies and experience appropriate to achieving the group's strategy to be the leading value-adding iron ore supplier to the global steel industry. The purpose of the policy in respect of directors' fees and remuneration is to ensure that executive directors and senior managers receive remuneration that is appropriate to their scope of responsibility and contribution to operating and financial performance, taking into account industry norms and external market and country benchmarks.

In applying the remuneration principles adopted, the remuneration committee aims to encourage long-term performance and the continuous alignment of such performance with the strategic direction and specific value drivers of the business.

### Executive directors

The remuneration of executive directors consists of two components: a fixed component and a variable component comprising the executive performance short-term incentive and long-term incentives in terms of Kumba's Bonus Share Plan and Long-Term Incentive Plan. Both fixed and variable components are designed to ensure that a substantial portion of the remuneration package is



linked to the achievement of the company's strategic objectives and improved group business performance, aligning incentives awarded to the enhancement of shareholder value.

A portion of the approved cash salary and the annual performance incentive elements of the chief financial officer, Mr VP Uren, are determined and paid in terms of a separate employment agreement concluded between Kumba International BV and the respective executive director for services rendered outside South Africa. The remuneration paid by Kumba International BV is calculated with reference to the time spent on services performed offshore.

#### Fixed remuneration

Following established practice, the fixed salaries of executive directors are reviewed annually in January. Adjustments to the fixed packages are determined with reference to the scope and nature of an individual's role and his performance and experience. The fixed packages are also compared with the median pay levels of other South African companies of comparable size and complexity, to ensure market competitiveness and performance excellence. The review also takes into account any change in the scope of the role performed by the individual, changes required to meet the principles of the remuneration policy and market competitiveness.

In addition to a basic cash salary, executive directors receive benefits that include membership of the group's medical health care scheme and vehicle benefits.

Retirement and risk benefits, including life cover and death-in-service benefits, are provided to executive directors subject to the rules of the Kumba Pension and Provident Selector Funds. Contributions are calculated as a percentage of the pensionable income and are paid to contributory retirement schemes established and/or approved by the group. The rate of contribution for each executive director is calculated on the basis of the assumption that executive directors will retire at the age of 60 years.

The basic cash salaries of executive directors were reviewed with effect from 1 January 2009. The basic cash salaries for the financial year are as follows:

R'000	2010 salary	2009 salary	2008 salary
CI Griffith	4,423 <sup>1</sup>	<b>3,085</b>	1,518 <sup>2</sup>
VP Uren <sup>3</sup>	3,208	<b>2,771</b>	2,495

1. The committee approved a market adjustment and annual performance adjustment for 2010.
2. CI Griffith was appointed as executive director effective 1 July 2008. The 2008 figure represents six months' salary.
3. Included in salary above is R416,514 (US\$49,585) (2008: R437,355 (US\$47,678)) payable to VP Uren by Kumba International BV in respect of services rendered as director.

#### Short-term incentives

In addition to fixed remuneration, each executive director participates in an executive performance short-term incentive scheme approved annually by the committee. This scheme is designed to reward and motivate the achievement of agreed group financial, business unit financial (where applicable), business unit strategic and performance objectives linked to the key performance areas of their respective management portfolios.

The approved principles of the short-term incentive scheme for the 2009 financial year comprise financial, business and strategic performance criteria and metrics. Kumba's financial performance targets are set by the board using earnings before interest and tax and return on capital employed as measures. Actual performance on Kumba's financial targets determined 50% of the executive directors' short-term incentive in 2009. The balance of the short-term incentive is determined by the extent to which strategic and other business performance objectives are achieved.

The performance criteria and metrics of the various Kumba businesses vary depending on business-specific strategic value drivers and key objectives as approved by the board. Focused value drivers derived from group business objectives include targets agreed for growth, safety and employment equity to ensure continued focus on these important business objectives.

On 3 February 2009, the committee considered an overall assessment of the performance of the executives participating in the scheme against the agreed group financial targets and the levels of achievement against their strategic and other key performance objectives within their respective areas of accountability. The annual incentives for the 2008 financial year were subsequently approved by the board at its meeting of 13 February 2009.

# Remuneration report

## for the year ended 31 December 2009 (continued)

The table below sets out the short-term incentive paid during 2009. The short-term incentive paid in 2009 is based on the group and personal performance for the 2008 financial year and is calculated as a percentage of basic employment cost (BEC) approved for the pay cycle.

Executive directors	2008 Total fixed remuneration R'000	2008 Basic Employment Cost (BEC) used for calculating incentive R'000	Annual incentive R'000	Annual incentive as a percentage of 2008 fixed remuneration %
CI Griffith <sup>1</sup>	1,773	1,518	746	42% (49% of BEC)
VP Uren <sup>2</sup>	2,938	2,495	1,250	43% (50% of BEC)

1. CI Griffith's 2008 annual incentive is pro-rated based on six months' service.
2. Included in annual incentive above is R155,715 (US\$18,537) payable to VP Uren by Kumba International BV in respect of services rendered as director in 2008.

### Long-term incentives

Executive directors and senior management participate in the following long-term incentive schemes as proposed by the remuneration committee and approved by the board:

**Old schemes** – transferred to Kumba post unbundling

1. Management Share Option Scheme (no grants awarded since unbundling)
2. Phantom Share Scheme (no grants awarded since unbundling)

### New schemes

1. The Share Appreciation Rights Scheme (no new grants will be made subsequent to the implementation of the Bonus Share Plan)
2. The Long-Term Incentive Plan
3. The Deferred Bonus Plan (no new grants will be made subsequent to the implementation of the Bonus Share Plan)
4. The Bonus Share Plan

The Bonus Share Plan for executive directors and senior employees was implemented during 2009. The adoption and implementation of the scheme was approved by shareholders at the annual general meeting held on 20 March 2009.

### Management Share Option Scheme

Prior to the unbundling of the then Kumba Resources Limited (Kumba Resources) senior employees and directors of Sishen Iron Ore Company participated in the Kumba Resources Management Share Option Scheme. At the time of unbundling in order to place, as far as possible, all participants in the Kumba Resources Management Share Option Scheme in the position they would have been in if they remained shareholders of the then Kumba Resources Limited, the schemes continued in Kumba Iron Ore Limited and in Exxaro Resources Limited.

The Management Share Option Scheme was adopted by the group post-unbundling subject to certain amendments that were made to the Kumba Resources Management Share Option Scheme. As a result the senior employees and directors that participated in the Kumba Resources Management Share Option Scheme subsequently became participants in the new Kumba Iron Ore Management Share Option Scheme.

From the date of the unbundling, no rights in terms of the Kumba Management Share Option Scheme have been granted.

No executive directors currently participate in the scheme.

### Phantom Share Scheme

As a result of restrictions related to the empowerment transaction of Kumba Resources, certain executive directors and senior employees who participated in the Kumba Resources Management Share Option Scheme were not able to receive certain grants of options which would have been made in the ordinary course of operations.

From the date of the unbundling, no rights in terms of the Phantom Share Scheme have been granted.

No executive directors or senior employees currently participate in the scheme.



#### The Share Appreciation Rights Scheme

Executive directors and senior employees have received two annual grants of share appreciation rights, which are rights to receive Kumba shares equal to the value of the difference between the market value of a Kumba share on the day immediately preceding the date of exercise of the right (exercise price) and market value of the Kumba share on the day immediately preceding the date of grant of the right (grant price).

The vesting of the rights is subject to specific performance conditions. The duration and specific nature of the conditions as determined by the remuneration committee of Kumba are stated in the letter of grant for each annual grant. The measurement of the performance conditions will be tested after three years. Retesting of the performance condition is permitted on the first and second anniversary of the end of the performance period. After vesting, the rights will become exercisable. Rights not exercised within seven years of grant date will lapse.

With the implementation of the Bonus Share Plan in 2009 no further rights are granted under the scheme.

#### The Long-Term Incentive Plan (LTIP)

Executive directors and senior employees receive annual grants of conditional awards of Kumba shares.

The performance conditions for the annual LTIP awards made since the inception of the plan in 2007 are subject to the achievement of stretching performance targets relating to total shareholder return (TSR) and to a financial measure, return on capital employed (ROCE), over a fixed three-year period. The conditional award will vest after the performance period of three years, and to the extent that specific performance conditions have been satisfied. No retesting of the performance conditions is allowed.

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

With the implementation of the Bonus Share Plan in 2009 only executive directors qualify for grants in terms of this scheme.

#### The Deferred Bonus Plan

The purpose of the plan is to encourage executive directors and senior employees to utilise part of their after tax short-term incentive payment for the purpose of acquiring shares (pledged shares) in Kumba. Participants who own pledged shares are entitled to all rights in respect of these shares including dividend and voting rights. If the pledged shares are held for the pledge period (usually three years) and the participants remain in the employ of the company for the pledge period, then the company will provide a matching award of free shares (matching shares). Executive directors and senior management first participated in this plan from 2008.

With the implementation of the Bonus Share Plan in 2009 no pledged shares will be granted under the scheme in future.

#### Bonus Share Plan

The Bonus Share Plan for executive directors and senior employees was implemented during 2009. The adoption and implementation of the scheme was approved by shareholders at the annual general meeting on 20 March 2009. The Bonus Share Plan is offered to executive directors and senior managers who have the opportunity and the responsibility to contribute towards the group's overall strategic objectives. The Bonus Share Plan has two components:

- A payment of an annual cash bonus (refer to the short-term incentive scheme); and
- A forfeitable award of shares linked to the participant's annual cash bonus award – these are known as Bonus Shares.

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

# Remuneration report

## for the year ended 31 December 2009 (continued)

Executive directors' remuneration for the year was as follows:

Executive directors (R'000)	Salary	Short-term incentive <sup>1</sup>	Retirement funding	Other benefits <sup>2</sup>	Total 2009	Total 2008
CI Griffith <sup>3</sup>	3,085	746	345	222	<b>4,398</b>	1,773
VP Uren <sup>4</sup>	2,771	1,250	270	240	<b>4,531</b>	3,574
EJ Myburgh <sup>5</sup>	–	–	–	–	–	2,646
<b>Total</b>	<b>5,856</b>	<b>1,996</b>	<b>615</b>	<b>462</b>	<b>8,929</b>	<b>7,993</b>

1. Short-term incentive awarded, based on the group results for the 2008 financial year.
2. Includes the encashment of leave accrued.
3. The remuneration for 2008 relates to the period 1 July 2008 to 31 December 2008.
4. Included in salary above is R416 514 (2008: R437 355) paid to VP Uren by Kumba International BV in respect of services rendered as director the previous year.
5. The remuneration for 2008 relates to the period 1 January 2008 to 30 June 2008.

### Executive directors' service contracts

Executive directors are not employed on fixed-term contracts and have standard employment service agreements.

An executive director is required to retire as executive committee member and the board at the age of 60, unless requested by the board to extend his or her term.

Executive directors <sup>1</sup>	Employment date	Date first appointed to the board
CI Griffith	1 July 2008	1 July 2008
VP Uren	7 April 2006	7 April 2006

1. In terms of the Board charter, the termination of an employment contract of an executive director will result *ipso facto* in the termination of his membership of the board, unless the board determines otherwise.

### Non-executive directors' fees

The committee recommends fees payable to the non-executive directors for approval by the shareholders. The annual fees payable to non-executive directors for the period commencing 1 January 2009 were approved by the shareholders at the AGM of members of 20 March 2009. Fees are approved for an annual period commencing on 1 January each year. The revised fees of the non-executive directors will be submitted to the shareholders for approval at the next AGM on 31 March 2010.

Non-executive directors' fees approved for 2009 were as follows:

Board/Committee (R'000)	Jan 2009 to Dec 2009	
	Member	Chairman
Chairman of the Kumba board		<b>1,000</b>
Kumba board	<b>150</b>	
Audit committee	<b>101</b>	<b>168</b>
Other board committees	<b>67</b>	<b>134</b>

Non-executive directors' fees paid during the year were as follows:

Non-executive directors (R'000)	Board meeting fees	Committee fees	Total 2009	Total 2008
PL Zim	1,000	–	<b>1,000</b>	660
ZBM Bassa <sup>1</sup>	150	226	<b>376</b>	NA
PM Baum <sup>2</sup>	150	67	<b>217</b>	200
GS Gouws <sup>2</sup>	150	–	<b>150</b>	140
DD Mokgatle	150	235	<b>385</b>	410
ND Moyo	150	101	<b>251</b>	230
AJ Morgan	150	302	<b>452</b>	328
PB Matlare	150	134	<b>284</b>	320
<b>Total</b>	<b>2,050</b>	<b>1,065</b>	<b>3,115</b>	<b>2,288</b>

1. Includes an amount of R57,649 paid in respect of services rendered in 2008.
2. Fees paid to their respective employers and not to the individuals.
3. Fees for non-executives are determined with reference to market data obtained from formal published surveys.
4. Non-executive directors appointed by the board shall be subject to retirement by rotation and re-election by shareholders in accordance with the terms of the Articles of Association of the company.





### Executive committee members' remuneration

The fixed remuneration of members of the group executive committee other than executive directors was reviewed by the committee at its meeting held on 11 November 2009. The fixed salaries were compared with the median pay levels of other South African companies, based on the scope and nature of each individual's role and his or her performance and experience.

Similar to the executive directors, the members of the group executive committee participate in the annual executive performance incentive scheme referred to above. The schemes are designed to recognise the contributions and value added to the group's financial position and performance. These schemes also play an important role in retaining key employees.

The aggregate remuneration of members of the Kumba executive committee (excluding that of the executive directors disclosed separately above) for the year was as follows:

Executive committee members (R'000)	Salary	Short-term incentive	Retirement funding	Other benefits <sup>1</sup>	Total 2009	Total 2008
Aggregate total	10,764	5,283	1,251	2,259	19,557	16,802
Number of members					8	8

1. Includes the encashment of leave accrued.

### Long-term incentive schemes

#### Kumba long-term incentive schemes

The interests of the directors in shares of the company provided in the form of share options, rights, conditional awards and pledged shares are shown in the tables below.

No variations have been made to the terms and conditions of the schemes during the year, including the performance conditions to which the granting and vesting of the options, rights and conditional awards are subject.

# Remuneration report

for the year ended 31 December 2009 (continued)

## Management Share Option Scheme

	Balance at beginning of year	Number		Balance at end of year	Weighted average exercise price (Rand)	R'000 Share-based payment expense	
		Share options exercised	Share options forfeited			2009	2008
Executive committee members	48,770*	(26,870) <sup>1</sup>	(1,980)	19,920	38.02	179	2,293

1. 26,870 share options with a weighted average exercise price of R38.02 per share were exercised during the period 1 January 2009 to 31 December 2009 on which a gain of R4,378,086 was realised.

## Share Appreciation Rights Scheme

	Balance at beginning of year	Number		Balance at end of year	Weighted average exercise price (Rand)	R'000 Share-based payment expense	
		Rights granted				2009	2008
<b>Executive directors</b>							
CI Griffith	7,540	–		7,540	–	227	155
VP Uren	16,154	–		16,154	–	315	260
<b>Total</b>	<b>23,694</b>	<b>–</b>		<b>23,694</b>	<b>–</b>	<b>542</b>	<b>415</b>
<b>Executive committee members</b>	37,494*	–		37,494	–	944	770

## Long-Term Incentive Plan

	Balance at beginning and end of year	Number		Balance at end of year	Weighted average exercise price (Rand)	R'000 Share-based payment expense	
		Conditional awards granted				2009	2008
<b>Executive directors</b>							
CI Griffith	7,548	18,586		26,134	–	720	275
VP Uren	15,815	16,858		32,673	–	1,084	361
<b>Total</b>	<b>23,363</b>	<b>35,444</b>		<b>58,807</b>	<b>–</b>	<b>1,804</b>	<b>636</b>
<b>Executive committee members</b>	36,937*	–		36,937	–	–	1,170

## Deferred Bonus Plan

	Balance at beginning of year	Number		Balance at end of year	Weighted average exercise price (Rand)	R'000 Share-based payment expense	
		Pledged shares granted				2009	2008
<b>Executive directors</b>							
VP Uren	648	–		648	–	62	46
<b>Total</b>	<b>648</b>	<b>–</b>		<b>648</b>	<b>–</b>	<b>62</b>	<b>46</b>
<b>Executive committee members</b>	–*	–		–	–	–	11

\* The difference in the balances at the beginning of the year to what was previously disclosed is due to changes in the composition of the executive committee.



## Bonus Share Plan

	Number		Weighted average exercise price (Rand)	R'000	
	Bonus shares awarded	Balance at end of year		Share-based payment expense	
				2009	2008
<b>Executive directors</b>					
C Griffith	7,328	7,328	–	264	–
VP Uren	9,528	9,528	–	344	–
<b>Total</b>	<b>16,856</b>	<b>16,856</b>	<b>–</b>	<b>608</b>	<b>–</b>
<b>Executive committee members</b>	41,736	41,736	–	1,406	–

## Anglo American plc Group Long-term incentive schemes

CI Griffith and VP Uren through their employment at Kumba, a member of the Anglo American plc group, retained of the awards granted whilst participants in the Anglo American plc group long-term incentive schemes. CI Griffith and VP Uren no longer receive awards under these schemes.

As at 31 December 2009 the following awards under the Anglo Platinum long-term incentives schemes were held by CI Griffith:

	Balance at beginning and end of year	Weighted average exercise price (Rand)
Anglo Platinum Share Option Scheme	5,693	233.24
Anglo Platinum Executive Share Appreciation Scheme	8	230.21
Anglo Platinum Executive Share Option Scheme	2,987	677.99

	Balance at beginning and end of year
Anglo Platinum Long Term Incentive Plan	2,991

As at 31 December 2009 all the following awards under the Anglo American long-term incentives schemes held by VP Uren at the beginning of the year, have vested, and have been released/exercised.

	Balance at beginning and end of year	Conditional awards released	Balance at end of year	Market price release date (Rand)
Anglo American Executive – LTIP	6,800	(6,800)	–	175.28

	Balance at end of year
Anglo American Executive – Restricted shares	2,734

## Directors' beneficial interest in Kumba

The aggregate beneficial interest in Kumba at 31 December 2009 of the directors of the company and their immediate families (none of which have a holding greater than 1%) in the issued shares of the company are detailed below. There have been no material changes in these shareholdings since that date.

Beneficial interest	2009			2008		
	Number of shares	Long-term incentive schemes <sup>1</sup>	Total beneficial interest	Number of shares	Long-term incentive schemes <sup>1</sup>	Total beneficial interest
<b>Executive directors</b>						
CI Griffith	330	41,002	41,002	–	15,088	15,088
VP Uren	5,000	59,003	64,003	4,250	32,144	36,394
<b>Total</b>	<b>5,330</b>	<b>100,005</b>	<b>104,255</b>	<b>4,250</b>	<b>47,232</b>	<b>51,482</b>

1. Granted under the long-term incentive schemes as disclosed in the tables above.

# Principal accounting policies

## General information

Kumba Iron Ore Limited (the company) is the holding company of the Kumba group (the group). Kumba is a mining group of companies focusing on the exploration, extraction, beneficiation, marketing, sale and shipping of iron ore. Kumba produces iron ore at Sishen Mine in the Northern Cape Province and at Thabazimbi Mine in the Limpopo Province, and is currently developing a new mine, Kolomela Mine, also in the Northern Cape Province.

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

## Basis of preparation

### Accounting framework

The consolidated financial statements and company financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of those Standards, the South African Companies Act and the Listings Requirements of the JSE Limited.

The financial statements have been prepared in accordance with the historical cost convention except for certain areas of financial instruments, biological assets and share-based payments which are measured at fair value. The consolidated financial statements are prepared on the basis that the group will continue to be a going concern. These accounting policies are consistently applied throughout the group.

The following principal accounting policies and methods of computation were applied by the company and the group in the preparation of the consolidated and stand-alone financial statements for the financial year ended 31 December 2009. Except as disclosed below, these accounting policies are consistent in all material respects with those applied for the year ended 31 December 2008.

### Statement of compliance

#### Change in accounting policies

##### *Accounting treatment of property, plant and equipment related to waste stripping*

Kumba changed its accounting policy in respect of stripping costs incurred during the production phase of a mine. Previously all stripping costs were treated as variable production costs incurred. The change in policy requires the capitalisation as development costs of waste stripping costs incurred during the production phase of the mine where the actual stripping ratio exceeds the average life of mine stripping ratio.

These capitalised costs are expensed when the actual stripping ratio is below the average life of mine ratio. This policy will ensure that the cost of stripping in any period is reflective of the average stripping rates of the ore body as a whole.

Due to the fact that the current pit profile of Sishen Mine is such that the actual stripping ratio is below the average over the remaining life of mine no costs have been capitalised. The change in accounting policy has no effect on the financial position or performance of the group.

#### **Adoption of new accounting standard and amendments to accounting standards**

The following new accounting standard and amendments to issued accounting standards which are relevant to the group were adopted and are effective from 1 January 2009:

##### *IAS 1 (revised), Presentation of Financial Statements*

IAS 1 (revised) introduces a statement of comprehensive income with two optional formats. The revised standard requires that changes in equity resulting from transactions with owners (holders of instruments classified as equity) be presented separately from non-owner changes in equity (also known as other comprehensive income). In addition, specific disclosures for components of other comprehensive income have been introduced.

As a result, the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of other comprehensive income. As the change in accounting policy only impacts presentation aspects, there is no impact on the reported results.

##### *IFRS 8, Operating Segments*

IFRS 8 replaces IAS 14, Segment reporting, and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments disclosed to include the operational mines and the shipping operations. Previously the group disclosed only a single business segment, mining (being mining, extraction and production of iron ore).



#### *IFRS 7, Financial Instruments: Disclosures (amendment)*

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. A three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used is introduced. These disclosures provide more information about the relative reliability of fair value measurements. Furthermore, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. As the change in accounting policy only results in additional disclosures, there is no impact on the reported results.

#### *IFRS 2, Share-based Payment (amendment)*

The amendment clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or the valuation thereof subsequent to grant date. The amendment did not have an impact on the reported results.

#### *Annual Improvements Project 2008*

As part of its annual improvements project, the International Accounting Standards Board (IASB) issued 'Improvements to International Financial Reporting Standards 2008' in May 2008. The standard includes 35 amendments to various issued accounting standards. These amendments were primarily made to resolve conflicts and remove inconsistencies between standards, clarify the status of application guidance in standards, clarify existing IFRS requirements as well as conforming the terminology used in standards with that used in other standards and to that more widely used. The group adopted these amendments in 2009 (with the exception of those listed under 'New accounting standards and interpretations not yet adopted'), the application of which has not had a significant effect on the results, nor has it required any restatement of prior period results.

The standards relevant to the group and company, affected by these amendments, effective for annual period beginning on 1 January 2009 are:

- IAS 1 (revised), Presentation of Financial Statements
- IAS 16, Property, Plant and Equipment and consequential amendment to IAS 7, Statement of Cash Flows
- IAS 19, Employee Benefits
- IAS 23, Borrowing Costs
- IAS 27, Consolidated and Separate Financial Statements
- IAS 28, Investments in Associates
- IAS 31, Interests in Joint Ventures
- IAS 36, Impairment of Assets
- IAS 39, Financial Instruments: Recognition and Measurement

#### *The South African Institute of Chartered Accountants Circular 3/2009 on Headline Earnings*

This circular replaces circular 8/2007 and provides a link to IFRS and accounting policy choices through guidance on the calculation of headline earnings including rules for every IFRS. The focus is to ensure that headline earnings reflect the operating/trading earnings of an entity and generally excludes re-measurements (changes – realised and unrealised – to the initial recognition of assets and liabilities) processed through profit or loss (with certain exceptions). The adoption of this circular did not have an impact on the reported results.

#### *Other*

A number of amendments to issued accounting standards and interpretations, which are not relevant to the group and have no impact on the financial position, results or cash flow information of the group are effective for annual periods beginning on or after 1 January 2009 and have consequently been adopted.

# Principal accounting policies (continued)

## New accounting standards and interpretations not yet adopted

At balance sheet date, the following amendments to issued accounting standards and interpretations, which are relevant to the group but not yet effective, have not been adopted by the group:

### *IFRS 3 (revised), Business Combinations*

*Consequential amendments to IAS 27, Consolidated and Separate Financial Statements; IAS 28, Investments in Associates and IAS 31, Interests in Joint Ventures (effective from 1 July 2009)*

IFRS 3 (revised) has been issued after completion of the IASB's second phase of its business combinations project and is now largely aligned with US accounting. The comprehensively revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

### *IAS 27 (revised), Consolidated and Separate Financial Statements (effective from 1 July 2009)*

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains or losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

### *IAS 39, Financial Instruments: Recognition and Measurement and IFRIC 9, Re-assessment of Embedded Derivatives (effective from 30 June 2009)*

The amendments to IAS 39 and IFRIC 9 clarify that on reclassification of a financial asset out of the fair value through profit or loss category all embedded derivatives have to be assessed and, if necessary, separately accounted for in the financial statements. This amendment is not expected to have a significant impact on the group's financial statements.

### *IFRS 2 (amendments), Share-based Payment (effective from 1 January 2010)*

In addition to incorporating IFRIC 8, Scope of IFRS 2, and IFRIC 11, IFRS 2 – Group and Treasury Share Transactions into the standard, the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The amended standard provides that an entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets is now required to recognise the goods or services received in its financial statements. This amendment is not expected to have a significant impact on the group's financial statements.

### *IFRIC 17, Distributions of Non-cash Assets to Owners (effective from 1 July 2009)*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation clarifies that:

- A dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity;
- An entity should measure the dividend payable at the fair value of the net assets to be distributed;
- An entity should re-measure the liability at each reporting date and at settlement, with changes recognised directly in equity; and
- An entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss, and should disclose it separately.

The interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The interpretation will be applied prospectively and is not expected to have a material impact on the group's financial statements.





#### *Annual Improvements Project 2008*

In May 2008, the IASB issued 'Improvements to International Financial Reporting Standards 2008'. The standard included an amendment to IFRS 5 that is effective for annual periods beginning on or after 1 January 2010. The group is in the process of evaluating the detailed requirements of this amendment.

#### *Annual Improvements Project 2009*

In April 2009, the IASB issued the 'Improvements to International Financial Reporting Standards 2009'. The standard includes 15 amendments to various issued accounting standards. These amendments consist of various necessary, but non-urgent, amendments to issued accounting standards and interpretations that will not be part of another major project of the Board. Most of these amendments are effective for annual periods beginning on or after 1 January 2010. The group is in the process of evaluating the detailed requirements of the amendments, however these amendments are not expected to have a significant impact on the group or company's financial statements.

#### *IFRS 9, Financial Instruments*

The new standard introduces new requirements for classifying and measuring financial assets that must be applied starting 1 January 2013, with early adoption permitted. The group is in the process of evaluating the impact on the financial statements of the group and company.

#### *Other*

A number of amendments to issued accounting standards and interpretations, which are not relevant to the group and are expected to have no impact on the financial position, results or cash flow information of the group, will be effective for annual periods beginning on or after 1 January 2010.

#### **Foreign currencies**

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

#### **Foreign currency transactions**

Transactions are translated into the functional currency of an entity at the rate of exchange ruling at the transaction date.

Monetary assets and liabilities that are denominated in foreign currencies are translated into the functional currency of an entity at the rate of exchange ruling at the balance sheet date.

Foreign exchange gains and losses arising on translation are recognised in the income statement, except where they relate to cash flow hedging activities in which case they are recognised in the statement of changes in equity.

#### **Foreign operations**

The financial results of all entities that have a functional currency different from the presentation currency of their parent entity are translated into the presentation currency.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and/or liabilities of the foreign entity and translated at the closing rate.

On disposal of part or all of the investment, the proportionate share of the related cumulative gains and losses previously recognised in the foreign currency translation reserve in the statement of changes in equity are recognised in the income statement on disposal of that investment.

#### **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Kumba executive committee.

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

# Principal accounting policies (continued)

## Post-balance sheet events

Recognised amounts in the financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the balance sheet date. Events after the balance sheet date that are indicative of conditions that arose after the balance sheet date are dealt with by way of a note.

## Comparative figures

Comparative figures are restated in the event of a change in accounting policy or a prior period error.

## Company financial statements

### Subsidiaries, associates and joint ventures

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

## Consolidated financial statements

### Basis of consolidation

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

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

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

### Subsidiaries

Subsidiaries are those entities (including special purpose entities) over which the group has the power to exercise control. Control is achieved where the group has the ability, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recognised in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

### Associates

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

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

Under this method the group's share of post-acquisition profits or losses of associates is recognised in the income statement as equity accounted earnings and its share of movements in post-acquisition equity reserves is recognised in the statement of changes in equity. All cumulative post-acquisition movements in the equity of associates are adjusted against the carrying value of the investment. When the group's share of losses in associates equals or exceeds its interest in those associates, the group does not recognise further losses, unless the group has incurred a legal or constructive obligation or made payments on behalf of those associates.

Goodwill identified on acquisition relating to associates is included in the carrying value of those associates.

The total carrying value of associates, including goodwill, is evaluated annually for impairment or when conditions indicate that a decline in fair value below the carrying amount is other than temporary. If impaired, the carrying value of the group's share of the underlying net assets of associates is written down to its estimated recoverable amount in accordance with the accounting policy on impairment and recognised in the income statement as part of equity accounted earnings of those associates.



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

#### Joint ventures

A joint venture is an economic entity in which the group holds a long-term interest and shares joint control over strategic, financial and operating decisions with one or more other venturers established under a contractual arrangement. It may involve a corporation, partnership or other entity in which the group has an interest.

The group's share of the assets, liabilities, income, expenditure and cash flows of joint ventures are accounted for using the proportionate consolidation method. The proportionate share of the financial results of joint ventures is consolidated into the consolidated financial statements from the date on which joint control commences until such time as joint control ceases. Proportionate consolidation combines the group's share of the financial results of the joint venture on a line-by-line basis with similar items in the consolidated financial statements.

### Financial statement items and transactions

#### Balance sheet

##### Property, plant and equipment

Property, plant and equipment, excluding land, assets that are in the process of being constructed, development costs and ongoing mineral exploration and evaluation costs, is stated at cost less accumulated depreciation and impairment.

Land, assets that are in the process of being constructed, development costs and ongoing mineral exploration and evaluation costs, are measured at cost less accumulated impairment and are not depreciated.

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

The cost of items of property, plant and equipment include all costs incurred to bring the assets to the location and condition necessary for their intended use by the group. The cost of self-constructed assets includes expenditure on materials, direct labour and an allocated proportion of project overheads.

The cost of property, plant and equipment may also include:

- The estimated costs of decommissioning the assets and site rehabilitation costs to the extent that they relate to the asset;
- Gains or losses on qualifying cash flow hedges attributable to that asset;
- Capitalised borrowing costs; and
- Capitalised pre-production expenditure and waste stripping costs.

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

Subsequent expenditure on property, plant and equipment is only capitalised when the expenditure enhances the value or output of the asset beyond original expectations and it can be measured reliably.

Costs incurred on repairing and maintaining assets are recognised in the income statement in the period in which they are incurred.

Gains and losses on the disposal of property, plant and equipment, which are represented by the proceeds on disposal of such assets less their carrying values at that date, are recognised in the income statement.

#### Depreciation

Depreciation is charged on a systematic basis over the estimated useful lives of the assets after taking into account the estimated residual value of the assets. Depreciation commences on self-constructed assets when they are ready for their intended use by the group. The useful life of an asset is the period of time over which the asset is expected to be used (straight-line method of depreciation). The estimated useful lives of assets and their residual values are reassessed annually, with any changes in such accounting estimates being adjusted in the year of reassessment and applied prospectively.

# Principal accounting policies (continued)

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

Mineral properties	10 – 28 years
Buildings, infrastructure and residential buildings	5 – 28 years
Mobile equipment, built-in process computers and reconditionable spares	2 – 28 years
Fixed plant and equipment	4 – 28 years
Loose tools and computer equipment	5 years
Mineral exploration, site preparation and development	5 – 28 years

**Research, development, mineral exploration and evaluation costs**

Research, development, mineral exploration and evaluation costs are expensed in the year in which they are incurred until they result in projects that the group:

- Evaluate as being technically or commercially feasible;
- Has sufficient resources to complete development; and
- Can demonstrate will generate future economic benefits.

Once these criteria are met, all directly attributable development costs and ongoing mineral exploration and evaluation costs are capitalised within property, plant and equipment. Capitalisation of pre-production expenditure ceases when the mining property is capable of commercial production.

During the development of a mine, before production commences, stripping expenses are capitalised as part of the investment in construction of the mine.

Capitalised pre-production expenditure is assessed for impairment in accordance with the group accounting policy stated below.

**Waste stripping expenses**

The removal of overburden or waste is required to obtain access to the ore body. To the extent that the actual stripping ratio is higher than the average stripping ratio in the early years of a mine's production phase, the costs associated with this process are deferred and charged to operating costs using the expected average stripping ratio over the average life of the area being mined. This reflects the fact that waste removal is necessary to gain access to the ore body and therefore realise future economic benefit.

The average life of mine stripping ratio is calculated as the number of tonnes of waste material expected to be removed during the life of mine, per tonne of ore mined. The average life of mine cost per tonne is calculated as the total expected costs to be incurred to mine the ore body divided by the number of tonnes expected to be mined. The cost of stripping in any period will therefore be reflective of the average stripping rates for the ore body as a whole. However, where the pit profile is such that the actual stripping ratio is below the average life of mine stripping ratio in the early years, no deferral takes place as this would result in recognition of a liability for which there is no obligation. Instead this position is monitored and when the cumulative calculation reflects a debit balance deferral commences.

**Business combinations and goodwill**

**Business combinations**

The purchase method of accounting is used when a business is acquired.

On acquisition date, fair values are attributed to the identifiable assets, liabilities and contingent liabilities. Minority interest at acquisition date is determined as the minority shareholders' proportionate share of the fair value of the net assets of subsidiaries acquired.

The cost of acquisition is measured as the fair value of the group's contribution to the business combination in the form of assets transferred, shares issued or liabilities assumed at the acquisition date plus all costs directly attributable to the acquisition.

Fair values of the identifiable assets and liabilities are determined by reference to market values of those or similar items at the acquisition date, irrespective of the extent of any minority interests, where these values are available. Alternatively, these values are determined by discounting expected future cash flows to present values.

**Goodwill**

Goodwill is measured at cost less accumulated impairment, if any. Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the identifiable net assets of the acquired entity at the date of acquisition.

Goodwill is assessed for impairment on an annual basis. Once any impairment has occurred on a specific goodwill item, the impairment losses will not be reversed in future periods.



Negative goodwill arises when the cost of acquisition is less than the fair value of the net identifiable assets and contingent liabilities of the entity acquired. Negative goodwill is recognised directly in the income statement.

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination from which the goodwill arose identified according to operating segment.

#### Non-current assets and disposal groups held for sale

A non-current asset or disposal group (a business grouping of assets and their related liabilities) is classified as held for sale when its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The classification as held for sale of a non-current asset or disposal group occurs when it is available for immediate sale in its present condition and the sale is highly probable. A sale is considered highly probable if management is committed to a plan to sell the non-current asset or disposal group, an active divestiture programme has been initiated, the non-current asset or disposal group is marketed at a price reasonable to its fair value and the disposal will be completed within one year from classification.

Upon classification as held for sale, the non-current asset or disposal group is measured at the lower of its carrying amount and its fair value less costs to sell. Any resulting impairment is recognised in the income statement.

On classification as held for sale, the assets are no longer depreciated and comparative information is not adjusted.

If a non-current asset or disposal group is classified as held for sale, but the criteria for classification as held for sale are no longer met, the disclosure of such non-current asset or disposal group as held for sale is ceased. On ceasing such classification, the non-current assets are reflected at the lower of:

- The carrying amount before classification as held for sale adjusted for any depreciation or amortisation that would have been recognised had the assets not been classified as held for sale; or
- The recoverable amount at the date the classification as held for sale ceases.

Any adjustments required to be made on reclassification are recognised in the income statement on reclassification.

#### Discontinued operations

A discontinued operation is a disposal group that, pursuant to a single plan, has been disposed of or abandoned or is classified as a disposal group held for sale. Once an operation has been identified as discontinued, or is reclassified as continuing, the comparative information in the income statement is restated. The results of discontinued operations are presented separately in the income statement and the assets and liabilities associated with these operations are included with 'Non-current assets held for sale' in the balance sheet.

#### Impairment of non-financial assets

The group's non-financial assets, other than inventories and deferred tax, are reviewed to determine whether there is any indication that those assets are impaired whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Recoverable amounts are estimated for individual assets. Where an individual asset cannot generate cash inflows independently, the assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). The recoverable amount is determined for the cash-generating unit to which the asset belongs.

The impairment loss recognised in the income statement is the excess of the carrying value over the recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use.

## Principal accounting policies (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate. The discount rate reflects the current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount and an impairment loss is recognised in the income statement.

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

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

### Biological assets

Biological assets are measured on initial recognition and at each balance sheet date at their fair value less estimated costs to sell, with these fair value adjustments recognised as income and expenditure in the income statement in the period in which they occur.

Biological assets comprise livestock and game. The fair value of livestock is determined based on market prices taking into account the age and size of the animals, on the basis that the animal is sold to be slaughtered. The fair value of game is determined as the market price for the game, using auction selling prices achieved for live game.

Both livestock and game held for sale are classified as consumable biological assets.

### Financial instruments

Regular-way purchases and sales of financial instruments are recognised on the trade date, being the date on which the group becomes party to the contractual provisions of the relevant instrument. The financial instruments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, with the exception of at fair value through profit or loss assets which are initially recognised at fair value, and transaction costs are expensed in the income statement. The fair values are based on quoted bid prices or amounts derived using a discounted cash flow model. Subsequent to initial recognition, the instruments are measured as set out below.

### Financial assets (other than derivative financial instruments)

The group classifies all of its financial assets into the 'At fair value through profit or loss' (FVTPL) and 'Loans and receivables' categories. This classification is dependent on the purpose for which the financial asset is acquired. Management determines the classification of its financial assets at the time of the initial recognition and re-evaluates such designation annually.

FVTPL financial assets are financial assets that are designated by the group as at FVTPL on initial recognition. A financial asset is designated in this category if it is managed and its performance is evaluated on a fair value basis, in accordance with documented risk management. Assets in this category are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. The group's FVTPL financial assets comprise the equity-linked deposits included in 'Investments held by environmental trust' in the balance sheet.

Financial assets at FVTPL are subsequently carried at fair value. Gains or losses arising from changes in the fair value of this category are presented in the income statement within 'Finance gains/(losses)' in the period in which they arise.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise cash elements of 'Investments held by environmental trust', 'Trade and other receivables' (excluding VAT and prepayments) and 'Cash and cash equivalents' in the balance sheet.





Loans and receivables are subsequently carried at amortised cost using the effective interest rate method.

#### *Impairment*

Loans and receivables are assessed at each balance sheet date to determine whether objective evidence exists that a financial asset is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

To the extent that the carrying value of an individual or group of assets exceeds the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate, an impairment loss is recognised by way of an allowance account in the income statement.

An impairment is reversed when evidence exists that an impairment has decreased. The reversal does not result in the carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement.

#### *Trade receivables*

Trade receivables are amounts due from customers for iron ore sold or shipping services rendered in the ordinary course of business.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, deposits held on call, and investments in money market instruments that are readily convertible to a known amount of cash, all of which are available for use by the group unless otherwise stated.

#### *Derecognition*

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

#### *Financial liabilities (other than derivative financial instruments)*

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

Financial liabilities comprise short-term and long-term interest-bearing borrowings and trade and other payables (excluding income received in advance).

Financial liabilities are subsequently carried at amortised cost using the effective interest rate method. Interest calculated using the effective interest rate method is recognised in profit or loss.

#### *Borrowings*

Borrowings comprise short-term and long-term interest-bearing borrowings. Premiums or discounts arising from the difference between the fair value of borrowings raised and the amount repayable at maturity date are recognised in the income statement as borrowing costs based on the effective interest rate method.

#### *Trade payables*

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of business.

#### *Derecognition*

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

#### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities, and includes ordinary share capital.

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs.

# Principal accounting policies (continued)

## Derivative financial instruments

Derivative instruments are categorised as at FVTPL financial instruments held for trading and are classified as current assets or liabilities. All derivative instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value at balance sheet date. Resulting gains or losses on derivative instruments, excluding designated and effective hedging instruments, are recognised in the income statement.

The group's criteria for a derivative instrument to be designated as a hedging instrument require that:

- The hedge transaction is expected and assessed to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk;
- The effectiveness of the hedge can be reliably measured throughout the duration of the hedge;
- The hedging relationship is adequately documented at the inception of the hedge; and
- For cash flow hedges, the forecast transaction that is the subject of the hedge must be highly probable.

A derivative instrument is classified as a cash flow hedge when it is designated and qualifies as hedge of a particular risk associated with a recognised asset or liability or highly probable forecast transaction.

The effective portion of any fair value gain or loss arising on such a derivative instrument is classified in other comprehensive income as a cash flow hedge accounting reserve until the underlying transaction occurs. The ineffective part of any gain or loss is recognised immediately in the income statement within 'Finance gains/(losses)'.

If the forecast transaction results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is transferred from the cash flow hedge accounting reserve and included in the initial measurement of the cost of the underlying asset or liability on the transaction date. For hedges that do not result in the recognition of a non-financial asset or liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects profit or loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, revoked, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedge transaction is no longer expected to occur, the net cumulative gain or loss previously recognised in equity is included in the income statement within 'Finance gains/(losses)' for the period.

## Offset

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and the group has the intention and the ability to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset and the net amount is reported in the balance sheet.

## Inventories

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

The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and fixed production overheads, but excludes finance costs. Fixed production overheads are allocated on the basis of normal capacity.

Plant spares and consumable stores are capitalised to the balance sheet and expensed to the income statement as they are utilised.

Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

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

## Share capital

Ordinary shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction therefrom, net of tax. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are included in the cost of acquisition as part of the purchase consideration.



#### Treasury shares

When the group acquires its own share capital, the amount of the consideration paid, including directly attributable costs, net of any related tax benefit, is recognised as a change in equity. Shares repurchased by the issuing entity are cancelled.

Shares repurchased by group entities are classified as treasury shares and are held at cost. These shares are treated as a deduction from the issued and weighted average number of shares, and the cost price of the shares is presented as a deduction from total equity. The par value of the shares is presented as a deduction from ordinary share capital and the remainder of the cost is presented as a deduction from ordinary share premium. Dividends received on treasury shares are eliminated on consolidation.

#### Dividends payable

Dividends payable and the related taxation thereon are recognised by the group when the dividend is declared. These dividends are recorded and disclosed as dividends in the statement of changes in equity. Secondary Taxation on Companies (STC) in respect of such dividends is recognised as a liability when the dividends are recognised as a liability and are included in the taxation charge in profit or loss.

Dividends proposed or declared subsequent to the balance sheet date are not recognised, but are disclosed in the notes to the consolidated financial statements.

#### Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

#### Environmental rehabilitation provision

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

#### Decommissioning provision

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

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

#### Ongoing rehabilitation expenditure

Ongoing rehabilitation expenditure is recognised in the income statement as incurred.

#### Contributions to rehabilitation trust

Annual contributions are made to a dedicated environmental rehabilitation trust to fund the estimated cost of rehabilitation during and at the end of the life of the group's mines. The group exercises full control over this trust and therefore the trust is consolidated. The trust's assets are recognised separately on the balance sheet as non-current assets at fair value. Interest earned on funds invested in the environmental rehabilitation trust is accrued on a time proportion basis and recognised as interest income.

#### Employee benefits cash-settled share-based payments

Refer to the 'Employee benefits – Equity compensation benefits' accounting policy note below.

# Principal accounting policies (continued)

## Deferred tax

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

- The initial recognition of goodwill;
- The initial recognition (other than in a business combination) of an asset or liability to the extent that neither accounting nor taxable profit is affected on acquisition; and
- Investments in subsidiaries to the extent they will probably not reverse in the foreseeable future.

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is recognised in the income statement, except when it relates to items recognised directly in equity, in which case the deferred tax is also taken directly to equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the group intends, and is able, to settle its current tax assets and liabilities on a net basis.

## Employee benefits

### Long-term benefits

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

### Post-employment benefits

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

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

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

### Termination benefits

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

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



### Equity compensation benefits

The various equity compensation schemes operated by the group allow certain senior employees, including executive directors, the option to acquire shares in Kumba over a prescribed period in return for services rendered. These options are settled by means of the issue of shares. Such equity-settled share-based payments are measured at fair value at the date of the grant. The fair value determined at the grant date of the equity-settled share-based payments is charged as employee costs on a straight-line basis over the period that the employees become unconditionally entitled to the options, based on management's estimate of the shares that will vest and adjusted for the effect of non market-based vesting conditions. These share options are not subsequently revalued.

The Phantom Share Scheme allows certain senior employees the right to participate in the performance of the Kumba share price, in return for services rendered, through the payment of cash incentives which are based on the market price of a Kumba share. These rights are considered cash-settled and are recognised as a liability at fair value in the balance sheet until the date of settlement. The fair value of these rights is determined at each reporting date and the unrecognised cost amortised to the income statement over the period that the employees provide services to the company.

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

### Income statement

#### Revenue

Revenue is derived principally from the sale of iron ore and shipping services rendered. Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and service in the ordinary course of the group's activities. Revenue excludes value-added tax, discounts, volume rebates and sales between group companies, and represents the gross value of goods invoiced.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below.

#### Sales of goods – iron ore

Revenue from the sale of iron ore is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Export revenues are recorded when the risks and rewards of ownership are transferred as indicated by the relevant sales terms stipulated in the sales contract.

#### Shipping services

Revenue arising from shipping services rendered is recognised based on the percentage of completion method based on the services performed to date as a percentage of the total services to be performed, and is only recognised when the stage of completion can be measured reliably.

#### Cost of goods sold

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

#### Income from investments

#### Interest income

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

# Principal accounting policies (continued)

## Dividend income

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

## Borrowing costs

Interest on borrowings directly relating to the financing of qualifying capital projects under construction is added to the capitalised cost of those projects during the construction phase, until such time as the assets are substantially ready for their intended use or sale which, in the case of mining properties, is when they are capable of commercial production. Where funds have been borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the group during the period.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## Employee benefits: Short-term benefits

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

## Operating leases

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

## Black economic empowerment (BEE) transactions

To the extent that an entity grants shares or share options in a BEE transaction and the fair value of the cash and other assets received is less than the fair value of the shares or share options granted, such difference is charged to the income statement in the period in which the transaction becomes effective. Where the BEE transaction includes service conditions the difference will be charged to the income statement over the period of these service conditions. A restriction on the transfer of the shares or share options is taken into account in determining the fair value of the shares or share options.

## Taxation

The income tax charge for the period is determined based on profit before tax for the year and comprises current tax, deferred tax and Secondary Taxation on Companies.

Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

## Current tax

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

## Secondary Taxation on Companies (STC)

STC is recognised as part of the current tax charge in the income statement when the related dividend is declared. When dividends received during the current year can be offset against future dividend payments to reduce the STC liability, a deferred tax asset is recognised to the extent of the future reduction in STC.

Also refer to the 'Deferred tax' accounting policy note above.

## Earnings per share

The group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of Kumba by the weighted average number of ordinary shares outstanding during the year.

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



### Convenience translation from Rand to US Dollars

The presentation currency of the group is Rand.

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

- Assets and liabilities are translated at the closing rate of exchange on balance sheet date;
- Income and expenses are translated at average rates of exchange for the years presented; and
- Shareholders' equity, other than attributable earnings for the year, is translated at the closing rate on each balance sheet date.

The resulting translation differences are included in shareholders' equity.

### Significant accounting judgements and estimates

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

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

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

### Property, plant and equipment

The depreciable amount of property, plant and equipment is allocated on a systematic basis over its useful life. In determining the depreciable amount management makes certain assumptions with regard to the residual values of assets based on the expected estimated amount that the group would currently obtain from disposal of the asset, after deducting the estimated cost of disposal. If an asset is expected to be abandoned the residual value is estimated at zero.

In determining the useful life of items of property, plant and equipment depreciated management considers the expected usage of assets, expected physical wear and tear, legal or similar limits of assets such as mineral rights as well as obsolescence.

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

- Changes in proved and probable iron ore reserves;
- Differences between actual iron ore prices and iron ore price assumptions;
- Unforeseen operational issues at mine sites; and
- Changes in capital, operating, mining, processing, reclamation and logistics costs, discount rates and foreign exchange rates.

Also refer to the unaudited 'General statement on mineral resource and ore reserve estimation and reporting' included in the Annual Report for a more detailed discussion on iron ore reserve estimation.

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



# Principal accounting policies (continued)

## Waste stripping costs

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

- Expected stripping ratio;
- Average life of mine stripping ratio; and
- Total expected mining costs to be incurred to mine the ore body.

The average life of mine stripping ratio and the average life of mine mining cost are recalculated annually in light of additional knowledge and changes in estimates. Any change in management's estimates would impact the stripping costs capitalised or charged to operating costs.

## Impairment of non-financial assets

The group reviews and tests the carrying value of assets when events or changes in circumstances indicate that the carrying amount may not be recoverable by comparing expected future cash flows to these carrying values. Such events or circumstances include movements in exchange rates, iron ore prices and the economic environment in which its businesses operate. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows of each group of assets.

Expected future cash flows used to determine the value in use of non-financial assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including iron ore reserves and production estimates, together with economic factors such as future iron ore prices, discount rates, foreign currency exchange rates, estimates of production and logistics costs, future capital expenditure and discount rates used.

## Provision for environmental rehabilitation and decommissioning

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

## Deferred tax assets

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

## Equity-settled share-based payment reserve

Management makes certain judgements in respect of selecting the appropriate fair value option pricing models to be used in estimating the fair value of the various share-based payment arrangements in respect of employees and special purpose entities. Judgements and assumptions are also made in calculating the variable elements used as inputs in these models. The inputs that are used in the models include, but are not limited to, the expected vesting period and related conditions, share price, dividend yield, share option life, risk-free interest rate and annualised share price volatility (refer to note 22).



#### Discount rates

The discount rates used are the appropriate pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the assets and liabilities being measured for which the future cash flow estimates have not been adjusted.

#### Segment reporting

In applying IFRS 8, Operating Segments, management makes judgements with regard to the identification of reportable operating segments of the group.

#### Going concern

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

# Kumba Iron Ore Limited Group

## Balance sheet

as at 31 December

Rand million	Notes	2009	2008
<b>Assets</b>			
Property, plant and equipment	1	11,568	7,911
Biological assets	2	7	8
Investments in associates and joint ventures	3	20	6
Investments held by environmental trust	4	279	237
Long-term prepayments	5	28	32
Deferred tax assets	11	129	11
<b>Non-current assets</b>		<b>12,031</b>	<b>8,205</b>
Inventories	6	2,559	1,879
Trade and other receivables	7	2,195	2,262
Current tax asset	26	131	547
Cash and cash equivalents	8	891	3,810
<b>Current assets</b>		<b>5,776</b>	<b>8,498</b>
<b>Total assets</b>		<b>17,807</b>	<b>16,703</b>
<b>Equity and liabilities</b>			
Shareholders' equity		7,282	6,859
Minority interest	23	1,674	1,647
<b>Total equity</b>		<b>8,956</b>	<b>8,506</b>
<b>Liabilities</b>			
Interest-bearing borrowings	9	3,859	977
Provisions	10	468	384
Deferred tax liabilities	11	2,282	1,990
<b>Non-current liabilities</b>		<b>6,609</b>	<b>3,351</b>
Short-term interest-bearing borrowings	9	55	2,881
Short-term provisions	10	4	310
Trade and other payables	12	2,161	1,655
Current tax liabilities	26	22	–
<b>Current liabilities</b>		<b>2,242</b>	<b>4,846</b>
<b>Total liabilities</b>		<b>8,851</b>	<b>8,197</b>
<b>Total equity and liabilities</b>		<b>17,807</b>	<b>16,703</b>

# Kumba Iron Ore Limited Group

## Income statement

for the year ended 31 December

Rand million	Notes	2009	2008
Revenue	14	23,408	21,360
Operating expenses	15	(10,528)	(7,847)
<b>Operating profit</b>	16	<b>12,880</b>	<b>13,513</b>
Finance income	18	286	154
Finance costs	18	(413)	(405)
<b>Profit before taxation</b>		<b>12,753</b>	<b>13,262</b>
Taxation	19	(3,949)	(4,179)
<b>Profit for the year</b>		<b>8,804</b>	<b>9,083</b>
<b>Attributable to:</b>			
Owners of Kumba		6,975	7,208
Minority interest		1,829	1,875
		<b>8,804</b>	<b>9,083</b>
<b>Earnings per share for profit attributable to the owners of Kumba (Rand per share)</b>	20		
Basic		21.88	22.80
Diluted		21.77	22.54

# Kumba Iron Ore Limited Group

## Statement of other comprehensive income

for the year ended 31 December

Rand million	Note	2009	2008
<b>Profit for the year</b>		<b>8,804</b>	<b>9,083</b>
<b>Net effect of (losses)/gains on other comprehensive income for the year, net of tax</b>	13	<b>(316)</b>	<b>707</b>
Foreign currency translation differences		(315)	713
Net effect of cash flow hedges		(5)	5
Taxation		4	(11)
<b>Total comprehensive income for the year</b>		<b>8,488</b>	<b>9,790</b>
<b>Attributable to:</b>			
Owners of Kumba		6,717	7,774
Minority interest		1,771	2,016
		<b>8,488</b>	<b>9,790</b>

# Kumba Iron Ore Limited Group

## Statement of changes in equity

for the year ended 31 December

Rand million	Share capital and share premium (note 21)	Equity-settled share-based payment reserve (note 22)	Foreign currency translation reserve (note 30)	Cash flow hedge accounting reserve	Retained earnings	Shareholders' equity	Minority interest (note 23)	Total equity
Balance at 31 December 2007	56	255	2	–	2,423	2,736	661	3,397
Shares issued during the year	80	–	–	–	–	80	–	80
Equity-settled share-based payment expense	–	88	–	–	–	88	21	109
Total comprehensive income for the year	–	–	562	4	7,208	7,774	2,016	9,790
Dividends paid (Refer to note 27)	–	–	–	–	(3,819)	(3,819)	(1,051)	(4,870)
<b>Balance at 31 December 2008</b>	<b>136</b>	<b>343</b>	<b>564</b>	<b>4</b>	<b>5,812</b>	<b>6,859</b>	<b>1,647</b>	<b>8,506</b>
Shares issued during the year	132	–	–	–	–	132	–	132
Purchase of treasury shares	(60)	–	–	–	–	(60)	–	(60)
Equity-settled share-based payment expense	–	112	–	–	–	112	26	138
Total comprehensive income for the year	–	–	(246)	(12)	6,975	6,717	1,771	8,488
Dividends paid (Refer to note 27)	–	–	–	–	(6,478)	(6,478)	(1,770)	(8,248)
<b>Balance at 31 December 2009</b>	<b>208</b>	<b>455</b>	<b>318</b>	<b>(8)</b>	<b>6,309</b>	<b>7,282</b>	<b>1,674</b>	<b>8,956</b>
Dividend per share (Rand)						Note	2009	2008
Interim						20	7.20	8.00
Final*						20	7.40	13.00

\* The final dividend was declared subsequent to the year-end and is presented for information purposes only.

### Equity-settled share-based payment reserve

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

### Foreign currency translation reserve

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

### Cash flow hedge accounting reserve

The cash flow hedge accounting reserve comprises the effective portion of the cumulative net change in the fair value of derivative financial instruments designated as cash flow hedges where the forecast transaction has not yet occurred.

# Kumba Iron Ore Limited Group

## Cash flow statement

for the year ended 31 December

Rand million	Notes	2009	2008
<b>Cash flows from operating activities</b>			
Cash receipts from customers		23,684	21,098
Cash paid to suppliers and employees		(11,062)	(6,579)
Cash generated from operations	24	12,622	14,519
Net finance costs paid	25	(287)	(401)
Taxation paid	26	(3,232)	(4,311)
Dividends paid	27	(6,437)	(3,794)
		<b>2,666</b>	<b>6,013</b>
<b>Cash flows from investing activities</b>			
Additions to property, plant and equipment	28	(3,996)	(2,563)
Investment in associates and joint ventures	3	(14)	(3)
Proceeds from disposal of non-current assets		37	–
Acquisition of business	29	(115)	–
Translation effects of cash flows of foreign operations	30	186	79
		<b>(3,902)</b>	<b>(2,487)</b>
<b>Cash flows from financing activities</b>			
Shares issued	21	132	80
Purchase of treasury shares	21	(60)	–
Dividends paid to minority shareholders	27	(1,811)	(1,076)
Interest-bearing borrowings raised	9	2,882	3,847
Interest-bearing borrowings repaid	9	(2,826)	(3,519)
		<b>(1,683)</b>	<b>(668)</b>
Net (decrease)/increase in cash and cash equivalents		<b>(2,919)</b>	2,858
Cash and cash equivalents at beginning of year		3,810	952
<b>Cash and cash equivalents at end of year</b>	8	<b>891</b>	<b>3,810</b>



# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December



Rand million	Land	Mineral properties	Residential buildings	Buildings and infrastructure	Machinery, plant and equipment	Mineral exploration, site preparation and development	Assets under construction	Total
<b>1. Property, plant and equipment</b>								
<b>2009</b>								
<b>Cost</b>								
Balance at beginning of year	64	668	68	226	7,473	254	1,635	10,388
Additions (Refer to note 28)	–	–	15	1	766	–	3,388	4,170
Changes in decommissioning provision	–	–	–	5	3	–	10	18
Disposals and scrapping	–	–	(2)	–	(54)	(173)	–	(229)
Transfers between asset classes	–	–	7	39	1,246	–	(1,292)	–
Exchange differences on translation	–	(10)	–	–	1	–	–	(9)
<b>Balance at 31 December 2009</b>	<b>64</b>	<b>658</b>	<b>88</b>	<b>271</b>	<b>9,435</b>	<b>81</b>	<b>3,741</b>	<b>14,338</b>
<b>Accumulated depreciation</b>								
Balance at beginning of year	–	178	40	86	1,889	237	–	2,430
Depreciation	–	17	2	9	497	5	–	530
Disposals and scrapping	–	–	(2)	–	(52)	(173)	–	(227)
Transfers between asset classes	–	–	–	(1)	1	–	–	–
<b>Balance at 31 December 2009</b>	<b>–</b>	<b>195</b>	<b>40</b>	<b>94</b>	<b>2,335</b>	<b>69</b>	<b>–</b>	<b>2,733</b>
<b>Impairment of assets</b>								
Balance at beginning of year	–	47	–	–	–	–	–	47
Exchange differences on translation	–	(10)	–	–	–	–	–	(10)
<b>Balance at 31 December 2009</b>	<b>–</b>	<b>37</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>37</b>
<b>Carrying amount at 31 December 2009</b>	<b>64</b>	<b>426</b>	<b>48</b>	<b>177</b>	<b>7,100</b>	<b>12</b>	<b>3,741</b>	<b>11,568</b>

# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

Rand million	Land	Mineral properties	Residential buildings	Buildings and infrastructure	Machinery, plant and equipment	Mineral exploration, site preparation and development	Assets under construction	Total
<b>1. Property, plant and equipment (continued)</b>								
<b>2008</b>								
<b>Cost</b>								
Balance at beginning of year	64	621	51	238	3,061	325	3,911	8,271
Additions (Refer to note 28)	2	–	18	–	64	–	2,271	2,355
Business combination	–	35	–	–	–	–	–	35
Changes in decommissioning provision	–	–	–	9	4	(2)	–	11
Disposals and scrapping	(2)	–	(1)	(27)	(197)	(69)	–	(296)
Transfers between asset classes	–	–	–	6	4,541	–	(4,547)	–
Exchange differences on translation	–	12	–	–	–	–	–	12
<b>Balance at 31 December 2008</b>	<b>64</b>	<b>668</b>	<b>68</b>	<b>226</b>	<b>7,473</b>	<b>254</b>	<b>1,635</b>	<b>10,388</b>
<b>Accumulated depreciation</b>								
Balance at beginning of year	–	161	38	107	1,788	288	–	2,382
Depreciation	–	17	2	9	286	18	–	332
Disposals and scrapping	–	–	–	(26)	(189)	(69)	–	(284)
Transfers between asset classes	–	–	–	(4)	4	–	–	–
<b>Balance at 31 December 2008</b>	<b>–</b>	<b>178</b>	<b>40</b>	<b>86</b>	<b>1,889</b>	<b>237</b>	<b>–</b>	<b>2,430</b>
<b>Impairment of assets</b>								
Impairment charge	–	50	–	–	–	–	–	50
Exchange differences on translation	–	(3)	–	–	–	–	–	(3)
<b>Balance at 31 December 2008</b>	<b>–</b>	<b>47</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>47</b>
<b>Carrying amount at 31 December 2008</b>	<b>64</b>	<b>443</b>	<b>28</b>	<b>140</b>	<b>5,584</b>	<b>17</b>	<b>1,635</b>	<b>7,911</b>



## 1. Property, plant and equipment (continued)

### Additional disclosures

Included in the above items of property, plant and equipment are fully depreciated assets still in use with an original cost price of R147 million (2008: R171 million).

During the year, the group scrapped fully depreciated assets with an original cost price of R173 million.

The group generated proceeds from the disposal of items of property, plant and equipment of R37.0 million (2008: R0.3 million).

The estimated replacement value of assets for insurance purposes amounts to R15.4 billion (2008: R14.3 billion).

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

None of the assets are encumbered as security for any of the group's liabilities.

Rand million	2009	2008
<b>Capital commitments</b>		
Capital commitments include all items of capital expenditure for which specific board approval has been obtained up to balance sheet date. Capital expenditure still under investigation for which specific board approvals have not yet been obtained are excluded.		
Capital expenditure contracted for plant and equipment	2,392	2,090
Capital expenditure authorised for plant and equipment but not contracted	6,755	8,753
Capital expenditure will be financed principally from borrowing facilities, available cash resources and cash generated from operations.		
Capital commitments for Thabazimbi Mine (a captive mine) will be financed by ArcelorMittal.		
Capital expenditure contracted for plant and equipment	6	—
Capital expenditure authorised for plant and equipment but not contracted	31	—

Rand million	Livestock	Game	Total
<b>2. Biological assets</b>			
Balance at beginning of year	4	4	8
Disposals (<R1 million)	0	(1)	(1)
<b>Balance at 31 December 2009</b>	<b>4</b>	<b>3</b>	<b>7</b>
Balance at beginning of year	3	3	6
Acquisitions	1	—	1
Gains attributable to physical changes and price changes	—	1	1
<b>Balance at 31 December 2008</b>	<b>4</b>	<b>4</b>	<b>8</b>

Biological assets comprise mature livestock and game and are measured at fair value.

Livestock consists of cattle, sheep and goats and game consists of giraffe, ostrich and a variety of antelope.

R'000	2009	2008
<b>3. Investments in associates and joint ventures</b>		
<b>Associates</b>		
Unlisted	50	50
<b>Joint ventures</b>		
Unlisted	19,840	5,470
<b>Total</b>	<b>19,890</b>	<b>5,520</b>

Refer to annexure 2 for detail of associated companies and joint ventures and directors' valuations.

# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

R'000	Investments	Loans	Total
<b>3. Investments in associates and joint ventures (continued)</b>			
<b>Associates</b>			
Balance at beginning of year	50	–	50
Interests acquired	–	–	–
<b>Balance at 31 December 2009</b>	<b>50</b>	<b>–</b>	<b>50</b>
Balance at beginning of year	50	–	50
Interests acquired	–	–	–
<b>Balance at 31 December 2008</b>	<b>50</b>	<b>–</b>	<b>50</b>

R'000	2009	2008
<b>Income statement information of associates</b>		
Operating expenses	–	–
<b>Operating profit</b>		
Net financing income	–	–
<b>Profit before taxation</b>		
Taxation	–	–
<b>Profit</b>	<b>–</b>	<b>–</b>
<b>Balance sheet information of associates</b>		
Non-current assets	2,893	2,893
Current assets	–	–
<b>Total assets</b>	<b>2,893</b>	<b>2,893</b>
Shareholders' equity	2,847	2,847
Current liabilities	46	46
<b>Total equity and liabilities</b>	<b>2,893</b>	<b>2,893</b>

The financial information presented represents the group's effective interest.

R'000	Investments	Loans	Total
<b>Joint ventures</b>			
Balance at beginning of year	–	5,470	5,470
Increase in loans to joint ventures	–	14,370	14,370
<b>Balance at 31 December 2009</b>	<b>–</b>	<b>19,840</b>	<b>19,840</b>
Balance at beginning of year	–	2,189	2,189
Increase in loans to joint ventures	–	3,281	3,281
<b>Balance at 31 December 2008</b>	<b>–</b>	<b>5,470</b>	<b>5,470</b>

R'000	2009	2008
<b>Income statement information of joint ventures</b>		
Revenue	182,069	102,608
Operating expenses	(23,935)	(15,963)
<b>Operating profit</b>	<b>158,134</b>	<b>86,645</b>
Net financing income	136	1,807
<b>Profit before taxation</b>	<b>158,270</b>	<b>88,452</b>
Taxation	2,635	(386)
<b>Profit</b>	<b>160,905</b>	<b>88,066</b>
<b>Balance sheet information of joint ventures</b>		
Non-current assets	10,269	859
Current assets	28,835	23,444
<b>Total assets</b>	<b>39,104</b>	<b>24,303</b>
Shareholders' equity	(11,758)	376
Non-current liabilities	19,839	–
Current liabilities	31,023	23,927
<b>Total equity and liabilities</b>	<b>39,104</b>	<b>24,303</b>
<b>Cash flow information of joint ventures</b>		
Cash flows from operating activities	8,360	(89,550)
Cash flows from investing activities	14,363	3,781
Foreign currency translations	(15,239)	34,067
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>7,484</b>	<b>(51,702)</b>

The financial information presented represents the group's effective interest.



Rand million	2009	2008
<b>4. Investments held by environmental trust</b>		
Balance at beginning of year	237	165
Contributions	26	63
Growth in environmental trusts	16	9
<b>Balance at end of year</b>	<b>279</b>	<b>237</b>
Cash investments	197	237
Equity-linked investments	82	–
	<b>279</b>	<b>237</b>
These investments may only be utilised for the purposes of settling decommissioning and rehabilitation obligations relating to the group's mining operations. The investment returns are re-invested by the trust. Refer to note 10 for the environmental rehabilitation and decommissioning obligations.		
<b>Maturity profile of investments held by environmental trust</b>		
More than 5 years	279	237
<b>Currency analysis of investments held by environmental trust</b>		
Rand million	279	237

#### Fair value of investments held by environmental trust

The fair value of investments held by the environmental trust is determined using a discounted cash flow method using market-related rates at 31 December.

Rand million	Carrying value	Fair value
Investments held by environmental trust – 2009	279	279
Investments held by environmental trust – 2008	237	237

#### Credit risk

Investments held by the environmental trust are invested in various financial institutions with long-term investment grade credit rating and with the capacity for payment of financial commitments considered strong.

#### Equity securities price risk

The equity-linked investments' values are determined with reference to the FTSE/JSE Financial and Industrial 30 and the FTSE/JSE Africa Index Series Top 40 indices. The fair value of these investments are determined indirectly using market prices observable for the equities that make up the indices to which the performance of the investments are linked (level 2).

#### Interest rate risk

Investments held by the environmental trust are invested in financial instruments with variable interest rates between 8.0% and 11.8% (2008: 6.5% and 11.5%).

Rand million	2009	2008
<b>5. Long-term prepayments</b>		
Prepayments	28	32
	<b>28</b>	<b>32</b>
<b>Maturity profile of long-term prepayments</b>		
1 to 2 years	7	16
2 to 5 years	11	16
More than 5 years	10	–
	<b>28</b>	<b>32</b>

Rand million	2009	2008
<b>6. Inventories</b>		
Finished products	1,166	738
Work-in-progress	1,058	877
Plant spares and stores	334	262
Merchandise	1	2
	<b>2,559</b>	<b>1,879</b>

No inventories are carried at net realisable value or were encumbered during the year.

# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

Rand million	2009	2008
<b>7. Trade and other receivables</b>		
Trade receivables	1,606	1,701
Other receivables	546	468
Derivative financial instruments (Refer to note 31)	43	93
	<b>2,195</b>	<b>2,262</b>

### Credit risk

Trade receivables are exposed to the credit risk of end-user customers within the steel manufacturing industry.

Concentration of credit risk exists in respect of trade receivables, where 79% (2008: 92%) or R1,270 million (2008: R1,569 million) of the total outstanding trade receivables balance of R1,606 million consists of individual end-user customers with an outstanding balance in excess of 5% of the total trade receivables balance as at 31 December 2009.

The group has an established credit policy under which customers are analysed for creditworthiness before the group's payment and delivery terms and conditions are offered. Customer balances are monitored on an ongoing basis to ensure that they remain within the negotiated terms and conditions offered.

Rand million	2009	2008
<b>Trade receivables credit risk exposure by geographical area</b>		
South Africa	257	39
Europe	235	515
Asia	1,114	1,147
	<b>1,606</b>	<b>1,701</b>
<b>Credit quality of trade receivables</b>		
Not past due	1,574	1,690
Past due 0 to 30 days	–	11
Past due 31 to 60 days	32	–
	<b>1,606</b>	<b>1,701</b>

No provision for impairment has been recognised in the current year (2008: RNil).

Based on historic default rates, the group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days.

Based on the credit standing and payment history of the receivable past due 31 to 60 days of R32 million, where a residual payment is outstanding due to the discharge port ore analysis which was still awaited at 31 December 2009, the group believes that no impairment allowance is necessary in respect of this receivable.

Credit terms are re-negotiated with long-standing counterparties who have a good credit history with the group. These parties are monitored on an ongoing basis to ensure that they remain within the re-negotiated terms. During 2009 the group re-negotiated the terms of a receivable amounting to R36 million. Payments under the re-negotiated terms have been received. Therefore no impairment allowance is recognised in respect of this receivable.

Rand million	2009	2008
<b>Currency analysis of trade receivables</b>		
Rand	232	39
US Dollar	1,373	1,662
Other	1	–
	<b>1,606</b>	<b>1,701</b>

### Fair value of trade and other receivables

The carrying amounts of trade and other receivables approximate their fair values because of the short period to maturity of these instruments.

Rand million	2009	2008
<b>Other receivables consists of the following</b>		
Prepayments	30	21
Value-Added Tax receivable	308	260
Interest receivable	9	33
Other	199	154
	<b>546</b>	<b>468</b>



Rand million	2009	2008
<b>8. Cash and cash equivalents</b>		
Bank balance and cash	535	3,688
Cash restricted for use	356	122
	<b>891</b>	<b>3,810</b>

Included in cash restricted for use is cash held by SIOC Community Development SPV (Pty) Limited which is considered a special purpose entity and is consolidated for accounting purposes. This cash was utilised subsequently to 31 December 2009 (Refer to note 35).

Rand million	2009	2008
<b>Currency analysis of cash and cash equivalents</b>		
Rand	432	3,089
US Dollar	453	710
Euro	4	10
Other	2	1
	<b>891</b>	<b>3,810</b>

#### Fair value of cash and cash equivalents

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

#### Credit risk

Cash and cash equivalents are held in various financial institutions with long-term investment grade credit rating and with the capacity for payment of financial commitments considered strong. During the year, Kumba withdrew the short-term deposit facility that was placed with Anglo American SA Finance Limited (2008: R2,875 million). Anglo American SA Finance Limited is a subsidiary of the group's ultimate holding company (Refer to note 36).

Rand million	2009	2008
<b>9. Interest-bearing borrowings</b>		
<b>Non-current interest-bearing borrowings</b>		
Long-term interest-bearing borrowings	3,859	3,852
Current portion included in current interest-bearing borrowings	–	(2,875)
	<b>3,859</b>	<b>977</b>
<b>Current interest-bearing borrowings</b>		
Short-term borrowings	55	6
Current portion of long-term interest-bearing borrowings	–	2,875
	<b>55</b>	<b>2,881</b>
<b>Total interest-bearing borrowings</b>	<b>3,914</b>	<b>3,858</b>
<b>Reconciliation</b>		
Balance at beginning of year	3,858	3,530
Interest-bearing borrowings raised	2,882	3,847
Interest-bearing borrowings repaid	(2,826)	(3,519)
<b>Balance at end of year</b>	<b>3,914</b>	<b>3,858</b>
<b>Maturity profile of interest-bearing borrowings</b>		
Within 1 year	55	2,881
2 to 3 years	3,195	977
3 to 4 years	664	–
<b>Balance at end of year</b>	<b>3,914</b>	<b>3,858</b>



# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

Rand million	Maturity date	Interest rate 31 Dec 2009 %	Facility	Outstanding balance 2009	Outstanding balance 2008
<b>9. Interest-bearing borrowings (continued)</b>					
<b>Unsecured loans</b>					
Revolving facility "C" at a floating interest rate of 3-month Jibar + 240 basis points, reset quarterly but payable semi-annually (2008: 13.58%). Maturity date 28 November 2013.	2013	9.48	5,400	700	1,000
Term facility at a floating interest rate of 3-month Jibar + 285 basis points, reset quarterly but payable semi-annually (2008: 13.06%). Maturity date 31 July 2012.	2012	10.11	3,195	3,195	–
Call loan facility	2010	–	3,400	55	–
Revolving facility "A" at a floating interest rate of 3-month Jibar + 100 basis points, reset quarterly but payable semi-annually. Repaid on 24 July 2009.	2009	–	2,840	–	2,840
Interest on revolving facility "A" – paid 31 March 2009.				–	41
Deferred transaction costs				(36)	(23)
<b>Balance at end of year</b>			<b>14,835</b>	<b>3,914</b>	<b>3,858</b>

The Jibar rate at 31 December 2009 was 7.229% (2008: 12.067%).

### Financial covenants

The group is in compliance with its debt covenants.

### Currency analysis of interest-bearing borrowings

All interest-bearing borrowings of the group are denominated in Rand.

### Fair value of interest-bearing borrowings

Rand million	Carrying value	Fair value
Interest-bearing borrowings – 2009	3,914	3,950
Interest-bearing borrowings – 2008	3,858	3,881



Rand million	Employee benefits cash-settled share-based payments	Contract for freightment	Environmental rehabilitation	Decommis- sioning	Total
<b>10. Provisions</b>					
<b>2009</b>					
Non-current provisions	8	–	377	83	468
Current portion of provisions	2	2	–	–	4
<b>Total provisions</b>	<b>10</b>	<b>2</b>	<b>377</b>	<b>83</b>	<b>472</b>
Balance at beginning of the year	22	305	304	63	694
Notional interest (Refer to note 18)	–	–	12	2	14
(Reversed)/charged to income statement	–	(196)	61	–	(135)
Capitalised to property, plant and equipment	–	–	–	18	18
Utilised during the year	(16)	(70)	–	–	(86)
Cash-settled share-based payments (Refer to note 22)	4	–	–	–	4
Exchange differences	–	(37)	–	–	(37)
<b>Balance at 31 December 2009</b>	<b>10</b>	<b>2</b>	<b>377</b>	<b>83</b>	<b>472</b>
<b>Expected timing of future cash flows</b>					
Within 1 year	2	2	–	–	4
1 to 5 years	8	–	–	–	8
More than 5 years	–	–	377	83	460
	<b>10</b>	<b>2</b>	<b>377</b>	<b>83</b>	<b>472</b>
<b>Estimated undiscounted obligation</b>	<b>–</b>	<b>99</b>	<b>860</b>	<b>201</b>	<b>1,160</b>
<b>2008</b>					
Non-current provisions	17	–	304	63	384
Current portion of provisions	5	305	–	–	310
<b>Total provisions</b>	<b>22</b>	<b>305</b>	<b>304</b>	<b>63</b>	<b>694</b>
Balance at beginning of the year	32	–	257	50	339
Notional interest (Refer to note 18)	–	–	10	2	12
Charged to income statement	–	305	37	–	342
Capitalised to property, plant and equipment	–	–	–	11	11
Utilised during the year	(7)	–	–	–	(7)
Cash-settled share-based payments (Refer to note 22)	(3)	–	–	–	(3)
<b>Balance at 31 December 2008</b>	<b>22</b>	<b>305</b>	<b>304</b>	<b>63</b>	<b>694</b>

# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

### 10. Provisions (continued)

#### Cash-settled share-based payments (Refer to note 22)

As a result of restrictions related to the empowerment transaction of Kumba Resources, certain executives and senior managers who participated in the Kumba Resources Management Share Option Scheme were not able to receive certain grants of options which would have been made in the ordinary course of operations. The human resources and remuneration committee of Kumba Resources consequently awarded "phantom options" to the affected participants. These phantom options were transferred to Kumba on unbundling.

#### Contract for afreightment

The R2 million provision as at 31 December 2009 relates to the remaining three voyages which extend past 31 December 2009 in terms of the existing freight contract based on the present value of the contractual costs less current market rates at 31 December 2009.

#### Environmental rehabilitation

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

#### Decommissioning

The decommissioning provision relates to decommissioning of property, plant and equipment where either a legal or constructive obligation is recognised as a result of past events. Estimates are based upon costs that are regularly reviewed and adjusted, where appropriate.

#### Funding of environmental rehabilitation and decommissioning (Refer to note 4)

Contributions towards the cost of mine closure are also made to the Kumba Rehabilitation Trust Fund and the balance of the trust amounted to R279 million at 31 December 2009 (2008: R237 million).

#### Significant accounting estimates

The estimation of the environmental rehabilitation and decommissioning provisions are a key area where management's judgement is required.

A change of 1% in the discount rate used in estimating the environmental rehabilitation and decommissioning provision would result in an increase of R100.7 million (2008: R86.9 million) or a decrease of R79.3 million (2008: R66.9 million) in the carrying value of the provision.

A change of one year in the expected timing of the commencement of environmental rehabilitation and decommissioning would result in an increase of R18.3 million (2008: R14.6 million) or a decrease of R17.6 million (2008: R14.1 million) in the carrying value of the provision.

#### Change in accounting estimate

At 31 December 2009 management revised the estimate of the amount and timing of the closure cost of Sishen Mine and Thabazimbi Mine. The effect of these changes are detailed below:

Rand million	Environmental rehabilitation	Decommissioning	Total
Amount of the closure cost	57	63	120

The change in estimate in the environmental rehabilitation provision resulted in a decrease in attributable profit for 2009 of R43 million (effect on earnings per share 13.4 cents per share) after taking into account taxation of R21 million and minority interest of R11 million. The change in estimate in the decommissioning provision has been capitalised to the related property, plant and equipment (Refer to note 1).

Rand million	2009	2008
<b>11. Deferred tax</b>		
<b>Deferred tax assets</b>		
<b>Reconciliation</b>		
Balance at beginning of year	11	9
Current period charge per the income statement	8	2
Acquisition of business (Refer to note 29)	110	–
<b>Balance at end of year</b>	<b>129</b>	<b>11</b>
<b>Expected timing</b>		
Deferred tax assets to be recovered within 12 months	25	–
Deferred tax assets to be recovered after 12 months	104	11
<b>Balance at end of year</b>	<b>129</b>	<b>11</b>
<b>Deferred tax assets are attributable to the following temporary differences</b>		
Estimated tax losses	129	10
Other	–	1
<b>Total deferred tax assets</b>	<b>129</b>	<b>11</b>

The amount of unused tax losses for which no deferred tax asset was recognised at 31 December 2009 was R2,738 million.



Rand million	2009	2008
<b>11. Deferred tax (continued)</b>		
<b>Deferred tax liabilities</b>		
<b>Reconciliation</b>		
Balance at beginning of year	1,990	1,490
Rate change	–	(50)
Prior year (over)/underprovision	(4)	2
Current year charge		
Per statement of other comprehensive income	4	11
Per the income statement	292	537
<b>Balance at end of year</b>	<b>2,282</b>	<b>1,990</b>
<b>Expected timing</b>		
Deferred tax liabilities to be recovered within 12 months	214	130
Deferred tax liabilities to be recovered after 12 months	2,068	1,860
	<b>2,282</b>	<b>1,990</b>
<b>Deferred tax liabilities are attributable to the following temporary differences</b>		
Property, plant and equipment	2,063	1,817
Environmental rehabilitation provision	(39)	(19)
Decommissioning provision	(13)	(12)
Leave pay accrual	(34)	(28)
Other	305	232
<b>Total deferred tax liabilities</b>	<b>2,282</b>	<b>1,990</b>

Rand million	2009	2008
<b>12. Trade and other payables</b>		
Trade payables	929	953
Other payables	1,109	592
Leave pay accrual	121	101
Derivative financial instruments (Refer to note 31)	2	9
	<b>2,161</b>	<b>1,655</b>
<b>Currency analysis of trade and other payables</b>		
US Dollar	192	48
Euro	31	102
Rand	1,931	1,503
Other	7	2
	<b>2,161</b>	<b>1,655</b>

#### Fair value of trade and other payables

The carrying amounts of trade and other payables approximate their fair values because of the short period to maturity of these instruments.

Other payables consist mainly of accruals for goods and services received.

# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

Rand million	Before tax	Taxation	Net of tax
<b>13. Other comprehensive income</b>			
<b>2009</b>			
<b>Foreign currency translation differences</b>			
Net losses arising during the year	(315)	4	(311)
<b>Net effect of cash flow hedges</b>			
Reclassification adjustments for losses included in profit or loss	(5)	–	(5)
<b>Other comprehensive income for the year</b>	<b>(320)</b>	<b>4</b>	<b>(316)</b>
<b>2008</b>			
<b>Foreign currency translation differences</b>			
Net gains arising during the year	713	(11)	702
<b>Net effect of cash flow hedges</b>			
Net gains arising during the year	5	–	5
<b>Other comprehensive income for the year</b>	<b>718</b>	<b>(11)</b>	<b>707</b>

Rand million	2009	2008
<b>14. Revenue</b>		
Sale of iron ore	20,016	18,948
Services rendered – shipping	3,392	2,412
	<b>23,408</b>	<b>21,360</b>
<b>Sale of iron ore</b>		
Domestic – South Africa	1,359	1,341
Export	18,657	17,547
China	13,378	6,671
Rest of Asia	3,128	5,598
Europe	2,151	5,218
<b>Services rendered – shipping (China)</b>	<b>3,392</b>	<b>2,412</b>
	<b>23,408</b>	<b>21,360</b>

Rand million	2009	2008
<b>15. Operating expenses</b>		
<b>Operating expenditure by function</b>		
Production costs	5,960	5,103
Movement in work-in-progress inventories	(160)	(99)
<b>Cost of goods produced</b>	<b>5,800</b>	<b>5,004</b>
Movement in finished product inventories	(440)	(190)
Finance gains (Refer to note 17)	(329)	(1,043)
Other	(30)	20
<b>Cost of goods sold</b>	<b>5,001</b>	<b>3,791</b>
Selling and distribution costs	2,838	1,977
Cost of services rendered – shipping	2,697	2,085
Sublease rentals received	(8)	(6)
<b>Operating expenses</b>	<b>10,528</b>	<b>7,847</b>
<b>Cost of goods sold comprises</b>		
Staff costs	1,814	1,482
Salaries and wages	1,508	1,245
Equity-settled share-based payments	138	109
Cash-settled share-based payments	4	(3)
Pension, medical and other costs	164	131
Raw materials and consumables	1,148	1,160
Depreciation of property, plant and equipment	530	332
Mineral properties	17	17
Residential buildings	2	2
Buildings and infrastructure	9	9
Machinery, plant and equipment	497	286
Site preparation and development	5	18
Repairs and maintenance	584	524
Impairment of mineral properties	–	50
Legal and professional fees	299	216
Outside services	983	839
Finance gains (Refer to note 17)	(329)	(1,043)
General expenses	600	613
Energy costs	138	96
Own work capitalised	(181)	(175)
Cost recoveries	15	(14)
Movement in inventories	(600)	(289)
<b>Cost of goods sold</b>	<b>5,001</b>	<b>3,791</b>



Rand million	2009	2008
<b>15. Operating expenses (continued)</b>		
<b>Cost of goods sold</b>	<b>5,001</b>	3,791
Selling and distribution costs	<b>2,838</b>	1,977
Distribution costs	<b>2,609</b>	1,824
Selling costs	<b>229</b>	153
Cost of services rendered – shipping	<b>2,697</b>	2,085
Sublease rentals received	<b>(8)</b>	(6)
<b>Operating expenses</b>	<b>10,528</b>	<b>7,847</b>

Rand million	2009	2008
<b>16. Operating profit</b>		
<b>Operating profit includes</b>		
Staff costs		
Employee expenses	<b>1,672</b>	1,376
Share-based payment expenses	<b>142</b>	106
Depreciation of property, plant and equipment	<b>530</b>	332
Reconditioned spares usage	-	1
Research and development cost	<b>3</b>	1
Operating lease rental expenses		
Property	<b>29</b>	19
Equipment	<b>31</b>	35
Operating sublease rentals received		
Property	<b>(6)</b>	(6)
Other	<b>(2)</b>	-
Net (profit)/loss on disposal and scrapping of property, plant and equipment	<b>(35)</b>	12
Auditor's remuneration		
Audit fees	<b>6</b>	6
Other services	<b>1</b>	1
Directors' emoluments (Refer to remuneration report on page 33)	<b>12</b>	10
Executive directors		
– Emoluments received as directors of the company	<b>7</b>	6
– Bonuses and cash incentives	<b>2</b>	2
Non-executive directors – emoluments received as directors of the company	<b>3</b>	2

Rand million	2009	2008
<b>17. Finance gains/(losses)</b>		
<b>Finance gains/(losses) recognised in operating expenses</b>		
Net gains on derivative financial instruments		
Realised	<b>694</b>	54
Unrealised	<b>42</b>	79
Net foreign currency (losses)/gains		
Realised	<b>(425)</b>	965
Unrealised	<b>18</b>	(55)
	<b>329</b>	<b>1,043</b>

Rand million	2009	2008
<b>18. Finance (costs)/income</b>		
Interest expense	<b>(573)</b>	(555)
Notional interest on non-current provisions (Refer to note 10)	<b>(14)</b>	(12)
Capitalisation of borrowing costs	<b>174</b>	162
Finance costs	<b>(413)</b>	(405)
Interest received	<b>286</b>	154
<b>Net finance costs</b>	<b>(127)</b>	<b>(251)</b>

Rand million	2009	2008
<b>19. Taxation</b>		
<b>Income tax expense</b>		
Current tax	<b>2,823</b>	3,190
Deferred tax	<b>280</b>	487
Secondary Taxation on Companies (STC)	<b>846</b>	502
	<b>3,949</b>	<b>4,179</b>

# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

Rand million	2009	2008
<b>19. Taxation (continued)</b>		
<b>Charge to the income statement</b>		
South African normal taxation		
Current year	2,835	3,162
Prior years	(22)	–
Foreign taxation		
Current year	18	33
Prior years	(8)	(5)
STC	846	502
Income tax	3,669	3,692
Deferred tax		
Current year	284	535
Rate change	–	(50)
Prior years	(4)	2
	<b>3,949</b>	<b>4,179</b>
	<b>2009</b>	<b>2008</b>
	<b>%</b>	<b>%</b>
<b>Reconciliation of taxation rates</b>		
Taxation as a percentage of profit before taxation	31.0	31.5
Taxation effect of:		
Disallowable expenditure	(0.5)	(1.9)
Exempt income	3.4	1.3
Utilisation of assessed loss	0.3	–
Rate difference on tax rate	0.2	0.5
STC	(6.6)	(3.8)
Prior year overprovision	0.2	–
Rate change	–	0.4
<b>Standard tax rate</b>	<b>28.0</b>	<b>28.0</b>

### 20. Per share information

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

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

Rand million	2009	2008
Profit attributable to equity holders of Kumba	6,975	7,208
<b>Number of shares</b>		
Weighted average number of ordinary shares in issue	318,742,724	316,140,923
Potential dilutive effect of outstanding share options	1,688,335	3,637,926
<b>Diluted weighted average number of ordinary shares in issue</b>	<b>320,431,059</b>	<b>319,778,849</b>





## 20. Per share information (continued)

### Reconciliation of headline earnings

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

Rand million	2009 Gross adjustment	2009 Net attributable	2008 Gross adjustment	2008 Net attributable
Profit attributable to equity holders of Kumba	6,975	6,975	7,208	7,208
Net (profit)/loss on disposal and scrapping of property, plant and equipment	(35)	(20)	12	7
Impairment of property, plant and equipment	–	–	50	50
Realisation of foreign currency translation reserve	–	–	19	11
	6,940	6,955	7,289	7,276
Taxation effect of adjustments	10		(9)	
Minority interest in adjustments	5		(4)	
<b>Headline earnings</b>	<b>6,955</b>	<b>6,955</b>	<b>7,276</b>	<b>7,276</b>

Rand	2009	2008
<b>Attributable earnings per share</b>		
Basic	21.88	22.80
Diluted	21.77	22.54
<b>Headline earnings per share</b>		
Basic	21.82	23.02
Diluted	21.71	22.75
<b>Dividend per share</b>		
Interim	7.20	8.00
Final	7.40	13.00

Number of shares	2009	2008
<b>21. Share capital and share premium</b>		
<b>Authorised</b>		
Ordinary shares of R0.01 each	500,000,000	500,000,000
<b>Issued</b>		
Ordinary shares of R0.01 each	320,415,081	319,461,421
<b>Reconciliation of issued shares</b>		
Number of shares at beginning of year	319,461,421	317,103,501
Number of ordinary shares issued	953,660	2,357,920
<b>Number of shares at end of year</b>	<b>320,415,081</b>	<b>319,461,421</b>
<b>Shares held in reserve reconciliation</b>		
Authorised shares at the beginning of year not issued	180,538,579	182,896,499
Shares issued	(815,550)	(562,570)
Shares held by the Kumba Iron Ore Management Share Trust	(138,110)	(1,795,410)
<b>Unissued shares</b>	<b>179,584,919</b>	<b>180,538,579</b>
The unissued shares are under the control of the directors of Kumba until the next annual general meeting.		
Rand million		
<b>Reconciliation of share capital and premium</b>		
Balance at beginning of year	136	56
Shares issued - share premium	48	123
Shares acquired for utilisation in Bonus Share Plan	(60)	–
Movement in shares held by Kumba Iron Ore Management Share Trust	84	(43)
<b>Share capital and premium at end of year</b>	<b>208</b>	<b>136</b>
Consists of:		
Share capital	3	3
Share premium	205	133

# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

Rand million	2009	2008
<b>22. Equity-settled share-based payment reserve</b>		
Balance at beginning of year	343	255
Equity-settled share-based payment expense	112	88
Employee share incentive schemes		
– Management Share Option Scheme	4	13
– Long-Term Incentive Plan (LTIP)	17	9
– Share Appreciation Rights Scheme (SARS)	10	9
– Bonus Share Plan (BSP)	11	–
– Envision	96	78
Minority interest	(26)	(21)
<b>Balance at the end of the year</b>	<b>455</b>	<b>343</b>

### Employee share incentive schemes

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

- Management Share Option Scheme
- Phantom Share Option Scheme
- Long-Term Incentive Plan (LTIP)
- Share Appreciation Rights Scheme (SARS)
- Bonus Share Plan (BSP)
- Deferred Bonus Plan (DBP)
- Envision

### Management Share Option Scheme

Prior to the unbundling of the then Kumba Resources Limited (Kumba Resources) senior employees and directors of Sishen Iron Ore Company participated in the Kumba Resources Management Share Option Scheme. At the time of unbundling in order to place, as far as possible, all participants in the Kumba Resources Management Share Option Scheme in the position they would have been in if they remained shareholders of the then Kumba Resources Limited, the schemes continued in Kumba and in Exxaro Resources. The Management Share Option Scheme was adopted by the group post-unbundling subject to certain amendments that were made to the Kumba Resources Management Share Option Scheme.

As a result, the senior employees and directors that participated in the Kumba Resources Management Share Option Scheme subsequently became participants of the new Kumba Iron Ore Management Share Option Scheme.

Under the Kumba Resources Management Share Option Scheme, share options in Kumba Resources were granted to eligible employees at the market price of the underlying Kumba Resources shares at the date of the grant.

The options granted under the scheme vest over a period of five years commencing on the first anniversary of the offer date except for some share options granted in 2005 that vest in multiples of 33.3% per year over a three year period commencing on the first anniversary of the offer date. The vesting periods of these share options are as follows:

- 10% after first anniversary of offer date;
- Additional 20% after second anniversary of offer date;
- Additional 20% after third anniversary of offer date;
- Additional 25% after fourth anniversary of offer date; and an
- Additional 25% after fifth anniversary of offer date.

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

Participants in the Kumba Iron Ore Management Share Option Scheme and the Exxaro Resources Management Share Option schemes exchanged each of their Kumba Resources share options for a share option in Kumba and Exxaro. The strike price of each Kumba Resources option was apportioned between Kumba and Exxaro Resources share options with reference to the volume weighted average price (VWAP) at which Kumba (67.19%) and Exxaro Resources (32.81%) traded for the first 22 days post the implementation of the unbundling transaction.

The Sishen Iron Ore Company employees' share options in the Kumba Iron Ore Management Share Option Scheme vest on the dates that the original share options would have vested and their Exxaro share options vest on the earlier of:

- The date that the original share options would have vested; or
- Twenty four months from the date of unbundling.

The Exxaro Resources Limited share options lapse 42 months after the date of unbundling.



## 22. Equity-settled share-based payment reserve (continued)

	Number of share options	Option price range (Rand)
<b>Movement in the number of share options granted</b>		
Balance at beginning of year	1,404,560	7.89 – 97.74
Share options exercised	(597,910)	7.89 – 97.74
Share options forfeited	(8,030)	26.40 – 37.62
<b>Balance at 31 December 2009</b>	<b>798,620</b>	<b>15.38 – 97.74</b>
Balance at beginning of year	1,986,370	7.89 – 97.74
Share options exercised	(558,680)	7.89 – 97.74
Share options forfeited	(23,130)	23.21 – 43.54
<b>Balance at 31 December 2008</b>	<b>1,404,560</b>	<b>7.89 – 97.74</b>

Number of share options	2009	2008
<b>Vesting period of share options granted</b>		
Already vested	456,870	683,410
Within 1 year	190,410	330,510
1 to 2 years	151,340	239,300
2 to 3 years	–	151,340
	<b>798,620</b>	<b>1,404,560</b>

Range of exercise prices (Rand)	Weighted average option price (Rand)	Number of share options	Expiry date
15.38 – 40.18	21.98	18,220	2010
20.69 – 69.61	26.58	167,450	2011
37.62 – 67.26	45.98	226,890	2012
68.53 – 97.74	81.62	386,060	2013
		<b>798,620</b>	

<b>Share options held by Exxaro Resources employees in Kumba</b>			
18.74 – 97.74	48.93	1,024,190	2010

Rand million	2009	2008
Share-based payment expense recognised	4	13
Unrecognised share-based payment expense	2	5

The share options granted under the Management Share Scheme are considered equity-settled. The share-based payment expense is measured using the fair value of the share options issued under the Management Share Option Scheme which was determined using the Black-Scholes option pricing model. The exchange of the Kumba Resources share options for Kumba and Exxaro share options was treated as a modification of the scheme. The incremental increase in fair value was determined immediately before and after the modification using the Black-Scholes option pricing model. The weighted average incremental fair value granted per share option as a result of the modification amounted to R13.42. This incremental increase is recognised over the revised vesting period.

	Before unbundling	After unbundling Kumba	After unbundling Exxaro
<b>Fair value assumptions</b>			
Share price (Rand)	142.00	110.00	39.00
Weighted average exercise price (Rand)	58.78	39.49	19.29
Annualised expected volatility (%)	37.90	37.90	37.90
Expected share option life (years)	4.34	4.34	4.34
Expected dividend yield (%)	4.00	4.00	4.00
Risk-free interest rate (%)	8.24	8.24	8.24

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

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

Range of exercise prices (Rand)	Weighted average option price (Rand)	Number of share options	Expiry date
<b>Share options held by Kumba employees in Exxaro Resources</b>			
6.91 – 47.73	26.16	343,890	2010

# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

### 22. Equity-settled share-based payment reserve (continued)

#### Phantom Share Option Scheme

As a result of restrictions related to the empowerment transaction of Kumba Resources, certain past and present executives and senior managers who participated in the Kumba Resources Management Share Option Scheme were not able to receive certain grants of options which would have been made in the ordinary course of operations. The human resources and remuneration committee of Kumba Resources consequently awarded "phantom share options" to the affected participants within the following framework:

- Awards of "phantom share options" were made, with the grant price, vesting dates, and lapse periods set to be the same as those of the options awardable.
- On exercise, the participants are paid (in cash) the difference between the market price (volume weighted average price on the day preceding exercise) and the grant price.
- All other rules and arrangements in respect of the amended Kumba Resources Management Share Option Scheme were replicated for the Kumba Resources Phantom Share Option Scheme.
- The Kumba Resources Phantom Share Option Scheme was replicated for Kumba. The senior employees and directors of Sishen Iron Ore Company that participated in the Kumba Resources Phantom Share Option Scheme prior to the implementation of the empowerment transaction subsequently became participants in the Kumba Phantom Share Option Scheme.
- Exxaro Resources and Kumba entered into an agreement that facilitated the settlement of obligations towards participants in the Phantom Share Option Schemes.

The accounting costs of the Kumba Phantom Share Option Scheme require recognition under IFRS 2 using the treatment for cash-settled share-based payments. This treatment is more volatile than that of the conventional (equity-settled) scheme and the liability will require marking to market at each reporting period.

	Offer date	Offer price	Number of share options
Phantom share options held by Kumba employees in Kumba	22 April 2005	40.18	9,900

No phantom share options were exercised by Kumba employees during 2009 (2008: 6,900 share options exercised at a volume weighted average price of R336.81). These options expire in April 2010. No new options have been granted to management or to senior staff following unbundling.

#### Long-Term Incentive Plan (LTIP)

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

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

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

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

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

The aggregate number of shares which may be allocated under the LTIP when added to the total number of unvested conditional awards, unexercised SARS grants and share options allocated to employees under any other managerial share scheme, may not exceed 10% of the number of issued ordinary shares of Kumba.



## 22. Equity-settled share-based payment reserve (continued)

	Number of conditional awards		
	2009 award	2008 award	2007 award
<b>Movement in the number of conditional awards granted</b>			
Balance at beginning of year	–	221,896	78,789
Conditional awards issued	36,490	3,841	2,142
Conditional awards exercised*	–	–	(528)
Conditional awards forfeited	–	(8,562)	(5,490)
<b>Balance at 31 December 2009</b>	<b>36,490</b>	<b>217,175</b>	<b>74,913</b>
Balance at beginning of year	–	–	85,376
Conditional awards issued	–	232,908	415
Conditional awards forfeited	–	(11,012)	(7,002)
<b>Balance at 31 December 2008</b>	<b>–</b>	<b>221,896</b>	<b>78,789</b>

\* This relates to employees who are considered good leavers in terms of the share scheme rules.

	Number of conditional awards	Expiry date
<b>Vesting period of conditional awards granted</b>		
Less than 1 year	74,913	2010
2 to 5 years	217,175	2011
3 to 5 years	36,490	2012

Rand million	2009	2008
Share-based payment expense recognised	17	9
Unrecognised share-based payment expense	15	23

	2009 award	2008 award	2007 award
<b>Fair value assumptions</b>			
Share price on date of grant (Rand)	172.06	332.06	126.50
Weighted average exercise price (Rand)	–	–	–
Annualised expected volatility (%)	51.66	38.95	37.20
Expected share option life (years)	3	3	3
Expected dividend yield (%)	10.28	5.81	2.65
Risk-free interest rate (%)	6.14	8.96	7.70

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

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

### Share Appreciation Rights Scheme (SARS)

Senior employees receive annual grants of share appreciation rights, which are rights to receive Kumba shares equal to the value of the difference between the market value of a Kumba share on the day immediately preceding the date of exercise (exercise price) of the right and market value of the Kumba share on the day immediately preceding the date of grant of the right (grant price).

The vesting of the rights is subject to specific performance conditions. The duration and specific nature of the conditions as determined by the remuneration committee of Kumba are stated in the letter of grant for each annual grant. The measurement of the performance conditions will be tested after three years. Retesting of the performance condition is permitted on the first and second anniversary of the end of the performance period. After vesting, the rights will become exercisable.

Kumba will settle the value of the difference between the exercise price and the grant price, by delivering shares to the employee. Rights not exercised within seven years will lapse.

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

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

The aggregate number of shares which may be allocated under the SARS when added to the total number of unexercised SARS, conditional awards under the LTIP and share options allocated to employees under any other managerial share scheme, may not exceed 10% of the number of issued ordinary shares of Kumba.

# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

### 22. Equity-settled share-based payment reserve (continued)

	Number of rights		Exercise price
	2008 award	2007 award	range (Rand)
<b>Movement in the number of rights granted</b>			
Balance at beginning of year	220,390	270,141	124.27 – 332.06
Rights issued	4,004	3,800	247.30 – 332.06
Rights exercised*	–	(2,878)	124.27
Rights forfeited	(8,500)	(18,562)	124.27 – 332.06
<b>Balance at 31 December 2009</b>	<b>215,894</b>	<b>252,501</b>	<b>124.27 – 332.06</b>
Balance at beginning of year	–	288,450	124.27 – 207.56
Rights issued	231,320	2,111	247.30 – 332.06
Rights exercised*	–	(2,500)	124.27
Rights forfeited	(10,930)	(17,920)	124.27 – 332.06
<b>Balance at 31 December 2008</b>	<b>220,390</b>	<b>270,141</b>	<b>124.27 – 332.06</b>

\* This relates to employees who are considered good leavers in terms of the share scheme rules.

	Exercise price range (Rand)	Number of rights	Expiry date
<b>Vesting period of rights granted</b>			
2 to 5 years	124.27 – 332.06	252,501	2014
More than 5 years	247.30 – 332.06	215,894	2015

Rand million	2009	2008
Share-based payment expense recognised	10	9
Unrecognised share-based payment expense	8	16

The rights granted under the SARS are considered equity-settled. The share-based payment expense is measured using the fair value of the rights issued under the SARS which was determined using the Black-Scholes option pricing model.

	2008 award	2007 award
<b>Fair value assumptions</b>		
Share price on date of grant (Rand)	332.06	126.50
Weighted average exercise price (Rand)	332.06	124.27
Annualised expected volatility (%)	36.90	37.20
Expected share option life (years)	5.50	4.50
Expected dividend yield (%)	6.30	2.66
Risk-free interest rate (%)	9.12	7.66

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

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

#### Bonus Share Plan (BSP)

The Bonus Share Plan for executive directors and senior employees was implemented during 2009. The adoption and implementation of the scheme was approved by shareholders at the annual general meeting (AGM) on 20 March 2009. The Bonus Share Plan is offered to senior managers and key executives who have the opportunity and the responsibility to contribute towards the group's overall strategic objectives. The Bonus Share Plan has two components

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

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



## 22. Equity-settled share-based payment reserve (continued)

	Number of awards	Expiry date
<b>Movement in the number of awards granted</b>		
Balance at beginning of year	–	
Bonus shares awarded	<b>299,138</b>	
<b>Balance at 31 December 2009</b>	<b>299,138</b>	
<b>Vesting period of awards granted</b>		
3 to 5 years	299,138	2014
<b>Rand million</b>		
	<b>2009</b>	<b>2008</b>
Share-based payment expense recognised	<b>11</b>	–
Unrecognised share-based payment expense	<b>32</b>	–

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

	<b>2009 award</b>
<b>Fair value assumptions</b>	
Share price on date of grant (Rand)	<b>172.60</b>
Expected share option life (years)	<b>3.00</b>
Expected dividend yield (%)	<b>10.28</b>
Risk-free interest rate (%)	<b>6.14</b>

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

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

### Deferred Bonus Plan

The purpose for the introduction of the Kumba Deferred Bonus Plan is to recognise contributions made by selected employees and to provide for an incentive for their continuing relationship with the group by providing them with the opportunity of receiving shares in Kumba. The scheme is intended as an incentive to ensure that the group attracts and retains the core competencies required for formulating and implementing the group's business strategies.

A participant may sacrifice up to 50% of his post-tax bonus he is entitled to under the current short-term incentive scheme in exchange for Kumba shares at the ruling market price. The pledged shares are then held in trust until their vesting date, which is three years after the offer date. The participant will beneficially own the pledged shares in the trust and will consequently receive dividends. The participant will also be entitled to the pledged shares if he leaves the employment of Kumba. At vesting date, provided that the participant is still employed by Kumba, the company makes an additional award of shares by matching the shareholding on a one-for-one basis. The participant is not required to pay for the offer of the matching award. Should the participant have traded with his pledged shares during the vesting period, the participant will not be eligible for a matching award on the traded shares. On vesting date, the participant will become unconditionally entitled to both the original pledged shares as well as the matching award, which will then be released to the participant.

	Number of pledged shares	Exercise price range (Rand)
<b>Movement in the number of pledged shares</b>		
Balance at beginning of year	<b>1,578</b>	<b>232.75 – 342.25</b>
<b>Balance at 31 December 2009</b>	<b>1,578</b>	<b>232.75 – 342.25</b>
<b>Balance at beginning of year</b>		
Shares pledged	–	–
Pledged shares lapsed	1,872	232.75 – 342.25
	(294)	340.00
<b>Balance at 31 December 2008</b>	<b>1,578</b>	<b>232.75 – 342.25</b>

	Exercise price range (Rand)	Number of pledged shares	Expiry date
<b>Vesting period of pledged shares</b>			
1 to 2 years	232.75 – 342.25	1,578	2011

R'000	<b>2009</b>	<b>2008</b>
Share-based payment expense recognised	<b>146</b>	118
Unrecognised share-based payment expense	<b>175</b>	321

The shares awarded under the DBP are considered equity-settled. The share-based payment expense is measured using the fair value of the shares issued under the DBP which was determined using the Black-Scholes option pricing model.

# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

### 22. Equity-settled share-based payment reserve (continued)

#### Envision

The implementation objective of Envision was to provide an incentive and retention initiative to employees who do not participate in the other share schemes of the group that are permanently employed by Sishen Iron Ore Company in South Africa.

The acquisition of the interest in Sishen Iron Ore Company by Envision was funded by Sishen Iron Ore Company in terms of a contribution agreement. The scheme will have a first term of five years and may have a second term on the same basis as the first term, starting on the expiry of the first term. Envision holds Sishen Iron Ore Company shares for the benefit of employee beneficiaries.

Employee beneficiaries of Envision are entitled to receive 50% of any dividend received by Envision in respect of its underlying shareholding in Sishen Iron Ore Company and a distribution at the end of the first term (five years) of the Sishen Iron Ore Company shares remaining in Envision after the repurchase of certain Sishen Iron Ore Company shares in terms of the subscription agreement. Each employee will be entitled to receive Kumba shares which were swapped for the Sishen Iron Ore Company shares using the specific price earnings ratio of Kumba and the most recent earnings of Sishen Iron Ore Company at the end of the first term.

	Number of share options	Weighted average option price (Rand)
<b>Movement in the number of share options granted</b>		
Balance at beginning of year	15,177,204	22.84
Share options issued	798,566	22.84
Share options forfeited	(621,977)	22.84
<b>Balance at 31 December 2009</b>	<b>15,353,793</b>	<b>22.84</b>
Balance at beginning of year	14,486,441	22.84
Share options issued	1,385,904	22.84
Share options forfeited	(695,141)	22.84
<b>Balance at 31 December 2008</b>	<b>15,177,204</b>	<b>22.84</b>

	Number of share options	Expiry date
<b>Vesting period of share options granted</b>		
2 years	15,353,793	2011

Rand million	2009	2008
Share-based payment expense recognised	96	78
Unrecognised share-based payment expense	168	218

Envision is considered equity-settled. The share-based payment expense is measured using the fair value of the awards issued under the scheme which was determined using the Monte Carlo option pricing model.

	2009	2008
<b>Fair value assumptions</b>		
Share price on date of grant (Rand)	39.48	39.48
Weighted average exercise price (Rand)	22.84	22.84
Annualised expected volatility (%)	45.00	45.00
Expected share option life (years)	5	5
Expected dividend yield (%)	5.25	5.25
Risk-free interest rate (%)	8.00	8.00

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

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

Rand million	2009	2008
<b>23. Minority interest</b>		
Balance at beginning of year	1,647	661
Profit for the year	1,829	1,875
Exxaro Resources	1,762	1,835
SIOC Community Development SPV	8	8
Envision	59	32
Dividends paid	(1,770)	(1,051)
Exxaro Resources	(1,744)	(1,036)
SIOC Community Development SPV	(8)	(8)
Envision	(59)	(32)
Recoupment of Envision dividend	41	25
Interest in movement in equity reserves	(32)	162
Equity-settled share-based payment reserve	26	21
Foreign currency translation reserve	(65)	141
Cash flow hedge accounting reserve	7	1
Taxation effects	-	(1)
<b>Balance at end of year</b>	<b>1,674</b>	<b>1,647</b>

The recoupment of the Envision dividend of R41 million (2008: R25 million) arises from Sishen Iron Ore Company's participation as income beneficiary in the SIOC Employee Share Participation Scheme (Envision).





Rand million	2009	2008
<b>24. Cash generated from operations</b>		
Operating profit	12,880	13,513
Adjusted for:		
Depreciation of property, plant and equipment	530	332
Movement in provisions	(222)	333
Foreign currency revaluations and fair value adjustments	(61)	(27)
Reconditionable spares used	–	1
Net (profit)/loss on disposal and scrapping of property, plant and equipment	(35)	12
Movement in non-current financial assets and prepayments	(41)	(96)
Equity-settled share-based payment expenses	138	109
Cash-settled share-based payment expenses	4	(3)
Capitalisation of operating profit to machinery, plant and equipment	–	370
Impairment of property, plant and equipment	–	50
<b>Cash flows from operations</b>	<b>13,193</b>	<b>14,594</b>
Working capital movements		
Increase in inventories	(931)	(357)
Decrease/(increase) in trade and other receivables	14	(262)
Increase in trade and other payables	346	544
	<b>12,622</b>	<b>14,519</b>

Rand million	2009	2008
<b>25. Net finance costs paid</b>		
Net financing costs as per income statement	(127)	(251)
Adjusted for:		
Notional interest on non-current provisions	14	12
Capitalisation of borrowing costs	(174)	(162)
	<b>(287)</b>	<b>(401)</b>

Rand million	2009	2008
<b>26. Taxation paid</b>		
Amounts receivable/(unpaid) at beginning of year	547	(64)
Income tax per the income statement	(3,669)	(3,692)
Translation of foreign operations	(1)	(8)
	<b>(3,123)</b>	<b>(3,764)</b>
Net current tax asset per balance sheet	(109)	(547)
	<b>(3,232)</b>	<b>(4,311)</b>
<b>Comprising</b>		
Normal tax		
South African	3,204	4,277
Foreign	28	34
	<b>3,232</b>	<b>4,311</b>

Rand million	2009	2008
<b>27. Dividends paid</b>		
Dividends per the statement of changes in equity	(6,478)	(3,819)
Recoupment of Envision dividend (Refer to note 23)	41	25
	<b>(6,437)</b>	<b>(3,794)</b>
<b>Dividends paid to minority shareholders</b>		
Dividends per the statement of changes in equity	(1,770)	(1,051)
Recoupment of Envision dividend (Refer to note 23)	(41)	(25)
	<b>(1,811)</b>	<b>(1,076)</b>

# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

Rand million	2009	2008
<b>28. Additions to property, plant and equipment</b>		
Replacement of property, plant and equipment	(1,142)	(791)
Reconditionable spares	(75)	(50)
Investments to maintain operations	(1,217)	(841)
Investment to expand operations	(2,779)	(1,722)
<b>Additions per the cash flow statement</b>	<b>(3,996)</b>	<b>(2,563)</b>
Borrowing costs capitalised	(174)	(162)
Cash flows relating to the Jig plant capitalised to machinery, plant and equipment	–	370
<b>Additions per note 1</b>	<b>(4,170)</b>	<b>(2,355)</b>

### 29. Acquisition of business

On 15 July 2009 Sishen Iron Ore Company (Pty) Limited (SIOC) acquired Taurus Investments SA, an Anglo American company incorporated in Luxembourg, for a cash consideration of R115 million (US\$14 million). This company was acquired to extend the benefit of the group's offshore operations by creating a European marketing hub to service the European and Middle East and North African markets as well as to establish collaboration with Anglo American plc's current operations in Luxembourg. Taurus was renamed Kumba International Trading SA.

The effective date of this transaction was 15 July 2009, as this is the date on which SIOC effectively obtained control by acquiring all the issued share capital.

The purchase consideration of US\$14 million was allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the effective date. No goodwill was recognised as part of the acquisition.

Rand million	2009
Cash paid on acquisition of business	115
<b>Allocated to:</b>	
Fair value of net assets acquired	115
<b>Purchase consideration</b>	<b>115</b>
Cash paid on acquisition of business	115
Cash and cash equivalents held by business on acquisition (< R1 million)	–
<b>Net cash outflow on acquisition of business</b>	<b>115</b>

Rand million	2009	2008
<b>30. Translation effect of cash flows of foreign operations</b>		
Balance at beginning of year	(564)	(2)
Closing balance	318	564
Movement for the year	(246)	562
Unrealised (losses)/gains in relation to foreign transactions	(13)	2
Transfer to foreign currency translation reserve	–	9
Revaluation of net assets	11	–
<i>Less: Arising on translation of foreign operations:</i>	<b>(499)</b>	635
Inventories	(254)	211
Accounts receivable	(357)	489
Financial assets	(3)	4
Accounts payable	33	(77)
Utilisation of provisions	83	–
Taxation paid	(1)	(7)
Property, plant and equipment acquired	–	15
Minority interest	(65)	141
	<b>186</b>	<b>79</b>

### 31. Financial instruments

The group is exposed to credit risk, liquidity risk and market risk (currency risk and interest rate risk) from the use of financial instruments. Overall responsibility for establishment and oversight of the risk management framework rests with the board of directors. The audit and risk committee, a committee of the board, is responsible for the development and monitoring of the group's risk management process.

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



### 31. Financial instruments (continued)

The risk assessment and reporting criteria are designed to provide the executive committee and the board, via the audit and risk committee, with a consistent, enterprise-wide perspective of the key risks. The reports which are submitted monthly to the executive committee and quarterly to the audit and risk committee include an assessment of the likelihood and impact of risks materialising, as well as risk mitigation initiatives and their effectiveness.

In conducting its annual review of the effectiveness of risk management, the board will consider the key findings from the ongoing monitoring and reporting processes, management assertions and independent assurance reports. The board will also take account of material changes and trends in the risk profile and consider whether the control system, including reporting, adequately supports the board in achieving its risk management objectives.

Sishen Iron Ore Company provides a treasury function to the group, coordinates access to domestic and international financial markets, and manages the financial risks relating to the group's operations.

#### Credit risk

Credit risk is the risk of financial loss to the group if a counterparty to a financial instrument fails to meet its contractual obligations. The group limits its counterparty exposure arising from money market and derivative instruments by dealing only with well-established financial institutions of high credit standing.

The group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the board annually.

The group has established policies and guidelines that are followed for specific exposure limits when transacting in derivative financial instruments.

Rand million	Notes	2009	2008
The carrying amounts of the financial assets set out below represent the maximum exposure to credit risk:			
Investments held by the environmental trust	4	279	237
Trade receivables	7	1,606	1,701
Other receivables			
(excluding VAT and prepayments)	7	208	187
Derivative financial instruments	7	43	93
Cash and cash equivalents	8	891	3,810
		3,027	6,028

An analysis of the credit risk of these financial assets is provided under the individual notes specified above. The group does not hold any collateral in respect of its financial assets subject to credit risk.

#### Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its financial obligations as they become due. The group manages liquidity risk by ensuring sufficient cash is available to meet expected operational expenses as well as sufficient cash resources and credit facilities to meet its liabilities when due.

The group's credit facilities are detailed under note 9.

# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

Rand million	Notes	Within 1 year	1 to 2 years	2 to 3 years	More than 3 years	Total
<b>31. Financial instruments (continued)</b>						
<b>2009</b>						
<b>Financial assets</b>						
Loans and receivables						
Investments held by the environmental trust	4	–	–	–	197	197
Trade receivables	7	1,606	–	–	–	1,606
Other receivables (excluding VAT and prepayments)	7	208	–	–	–	208
Cash and cash equivalents	8	891	–	–	–	891
Held at fair value through profit or loss						
Investments held by the environmental trust	4	–	–	–	82	82
Derivative financial instruments	7	43	–	–	–	43
<b>Financial liabilities</b>						
Interest-bearing borrowings	9	(55)	–	(3,195)	(664)	(3,914)
Trade payables	12	(929)	–	–	–	(929)
Other payables	12	(1,109)	–	–	–	(1,109)
Derivative financial instruments	12	(2)	–	–	–	(2)
		<b>653</b>	<b>–</b>	<b>(3,195)</b>	<b>(385)</b>	<b>(2,927)</b>
<b>2008</b>						
<b>Financial assets</b>						
Loans and receivables						
Investments held by the environmental trust	4	–	–	–	237	237
Trade receivables	7	1,701	–	–	–	1,701
Other receivables (excluding VAT and prepayments)	7	187	–	–	–	187
Cash and cash equivalents	8	3,810	–	–	–	3,810
Derivative financial instruments	7	93	–	–	–	93
<b>Financial liabilities</b>						
Interest-bearing borrowings	9	(2,881)	–	(977)	–	(3,858)
Trade payables	12	(953)	–	–	–	(953)
Other payables	12	(592)	–	–	–	(592)
Derivative financial instruments	12	(9)	–	–	–	(9)
		<b>1,356</b>	<b>–</b>	<b>(977)</b>	<b>237</b>	<b>616</b>



### 31. Financial instruments (continued)

#### Market risk

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

#### Currency risk

Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate in Rands due to changes in foreign exchange rates. The group undertakes transactions denominated in currencies other than the respective functional currencies of the entities within the group. Through these transaction the group is exposed to currency risk.

The group is principally exposed to fluctuations in foreign exchange rates in respect of US Dollar market exchange rate at 31 December. The average US Dollar/Rand exchange rate for 2009 of US\$1: R8.39 (2008: US\$1: R8.25) has been used to translate income and cash flow statements, whilst the balance sheet has been translated at the closing rate at the last day of the reporting year using an exchange rate of US\$1: R7.39 (2008: US\$1: R9.37). The group's financial instrument exposure to currency risk is analysed under the individual note for each financial instrument at balance sheet date.

Rand million	Financial assets	Financial liabilities	Net exposure
<b>2009</b>			
Rand	1,151	(5,722)	(4,571)
US Dollar	1,826	(192)	1,634
Euro	4	(31)	(27)
Other	3	(7)	(4)
	<b>2,984</b>	<b>(5,952)</b>	<b>(2,968)</b>
<b>2008</b>			
Rand	3,552	(5,251)	(1,699)
US Dollar	2,372	(48)	2,324
Euro	10	(102)	(92)
Other	1	(2)	(1)
	<b>5,935</b>	<b>(5,403)</b>	<b>532</b>

The group uses derivative financial instruments to reduce the uncertainty over future cash flows arising from movements in currencies in which it transacts. Currency risk is managed within board-approved policies and guidelines, which restrict the use of derivative financial instruments to the hedging of specific underlying currencies. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts ('FECs').

The group maintains a fully covered exchange rate position in respect of imported capital equipment resulting in these exposures being fully converted to Rand. Trade-related import exposures are managed through the use of natural hedges arising from export revenue as well as through short-term FECs.

Outstanding exposure at 31 December in respect of derivative financial instruments:

	Foreign amount (m)	Market related value (Rand m)	Contract value (Rand m)	Recognised fair value in equity (Rand m)
<b>Derivative instruments – cash flow hedges</b>				
<b>FECs related to future commitments for the import of capital equipment</b>				
<b>2009</b>				
US Dollar	–	2	2	–
Euro	2	27	28	1
		<b>29</b>	<b>30</b>	<b>1</b>
<b>2008</b>				
Euro	6	84	79	(5)
		<b>84</b>	<b>79</b>	<b>(5)</b>

# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

### 31. Financial instruments (continued)

	Foreign amount (m)	Market related value (Rand m)	Contract value (Rand m)	Recognised fair value gains/(losses) (Rand m)
<b>Derivative instruments – held for trading</b>				
<b>FECs related to the repatriation of foreign cash receipts</b>				
<b>2009</b>				
US Dollar	172	1,278	1,320	42
		<b>1,278</b>	<b>1,320</b>	<b>42</b>
<b>2008</b>				
<b>FECs related to the repatriation of foreign cash receipts</b>				
US Dollar	55	517	595	78
<b>FECs related to future commitments for the import of capital equipment</b>				
US Dollar	5	43	43	–
Euro	2	21	20	(1)
		<b>581</b>	<b>658</b>	<b>77</b>

The fair value of derivative instruments included in hedging assets and liabilities is calculated using quoted market prices for identical derivative instruments (level 1).

#### Sensitivity analysis

A movement in exchange rates of 5%, with all other variables held constant, against the US Dollar would have increased/(decreased) profit or loss and equity by the amounts shown below.

The impact on equity includes the after tax impact of the movements in profit or loss. The analysis has been performed on the basis of the change occurring at the end of the reporting period and is performed on the same basis for 2008.

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

Rand million	Impact on profit or loss		Impact on equity	
	Increase	Decrease	Increase	Decrease
<b>2009</b>				
US Dollar	145	(145)	104	(104)
<b>2008</b>				
US Dollar	123	(123)	89	(89)

#### Interest rate risk

Interest rate risk arises from the group's floating rate borrowings and the floating rate cash balances which exist. The company is not exposed to fair value interest rate risk as the company does not have any fixed interest-bearing financial instruments carried at fair value. As part of the process of managing the company's interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates. For further details on long-term borrowings refer to note 9 'Interest-bearing borrowings'.

#### Sensitivity analysis

Changes in market interest rates affect the interest income or expense of floating rate financial instruments. A change in the market interest rate of 50 basis points, with all other variables held constant, would have increased/(decreased) profit or loss and equity by the amounts shown below.

The impact on equity includes the after tax impact of the movements in profit or loss. The analysis has been performed on the basis of the change occurring at the end of the reporting period and is performed on the same basis for 2008.



### 31. Financial instruments (continued)

Rand million	Impact on profit or loss		Impact on equity	
	Increase	Decrease	Increase	Decrease
<b>2009</b>				
Floating interest rate instruments	15	(15)	11	(11)
<b>2008</b>				
Floating interest rate instruments	19	(19)	14	(14)

#### Price risk

The group is not exposed to commodity price risk, as the value of its financial assets or liabilities are not subject to commodity price movements.

The group is exposed to equity securities price risk from equity-linked investments held by the environmental trust. The impact of fair value fluctuations of these investments on profit or loss and equity for the year ended at 31 December is not significant. Refer to note 4 'Investments held by environmental trust'.

#### Capital management

The group strives to maintain strong credit ratings. In managing its capital, the group focuses on a sound net debt position, return on shareholders' equity (or return on capital employed) and the level of dividends to shareholders. Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

The group's net debt position at balance sheet dates was as follows:

Rand million	2009	2008
Long-term interest-bearing borrowings	3,859	977
Short-term interest-bearing borrowings	55	2,881
<b>Total</b>	<b>3,914</b>	<b>3,858</b>
Cash and cash equivalents	(891)	(3,810)
<b>Net debt</b>	<b>3,023</b>	<b>48</b>
<b>Total equity</b>	<b>8,956</b>	<b>8,506</b>

It is the intention of management to fund Kumba's capital expansion projects through cash resources and debt financing. During the year Kumba secured a R3.2 billion term loan to refinance the revolving facility that was maturing in November 2009. To date R3.9 billion of the R8.6 billion term debt facilities raised in 2008 has been drawn down to finance Kumba's expansion.

The undrawn short- and long-term borrowing facilities available to the group is R8.1 billion (2008: R6.1 billion). Kumba was not in breach of any of its covenants during the current year.

There has been no change in the group's objectives, policies and processes for managing its capital from the prior year.

### 32. Employee benefits

#### Retirement fund

Independent funds provide pension and other benefits for all permanent employees and their dependants. At the end of 2009 and 2008 the following funds were in existence:

- Kumba Iron Ore Selector Pension Fund and Kumba Iron Ore Selector Provident Fund, both operating as defined contribution funds; and
- Iscor Employees Umbrella Provident Fund, operating as a defined contribution fund.

In compliance with the Pension Fund Act, after the unbundling of Kumba Resources Limited, the members' funds of Sishen Iron Ore Company employees were transferred to the Kumba Iron Ore Selector Pension and Provident Funds, once all regulatory approvals were obtained.

Members pay contributions of 7% and an employers contribution of 10% is expensed as incurred.

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

#### Defined contribution funds

Membership of each fund and employer contributions to each fund were as follows:

	2009		2008
	Working members (number)	Employer contributions (Rand million)	Employer contributions (Rand million)
Kumba Iron Ore Selector Pension and Provident Funds	1,771	59	46
Iscor Employees' Umbrella Provident Fund	3,477	40	31
<b>Total</b>	<b>5,248</b>	<b>99</b>	<b>77</b>

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

# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

### 32. Employee benefits (continued)

#### Medical fund

The group contributes to defined benefit medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R61 million (2008: R52 million). The group has no obligation to fund medical aid contributions for current or retired employees.

Rand million	2009	2008
<b>33. Guarantees and legal proceedings</b>		
<b>Guarantees</b>		
Environmental trust closure liability	14	13
Bank guarantees for property acquisitions	–	77
	<b>14</b>	<b>90</b>

The bank guarantees for property acquisitions were exercised during 2009.

#### Legal proceedings

##### *ArcelorMittal SA Limited (ArcelorMittal)*

An award has been rendered in the arbitration between ArcelorMittal and Sishen Iron Ore Company (Pty) Limited (SIOC), a subsidiary of Kumba. The arbitration related to ArcelorMittal's claim to be entitled to participate in the Kolomela Mine currently under development by SIOC. On 27 October 2009, the Arbitration Panel issued an award in favour of SIOC and determined that ArcelorMittal is not entitled to participate in the project.

##### *Lithos Corporation (Pty) Limited (Lithos)*

Lithos is claiming US\$421 million from Kumba for damages. Kumba continues to defend the merits of the claim and is of the view, and has been so advised, that the basis of the claim and the quantification thereof is fundamentally flawed. A trial date has been provisionally allocated, being 8 March 2010 to 2 April 2010. No liability has been recognised for this litigation.

##### *La Société des Mines de Fer du Sénégal Oriental (Miferso)*

Kumba has initiated arbitration proceedings against Miferso and the Republic of Senegal under the Rules of Arbitration of the International Chamber of Commerce. The arbitration hearings took place during the third quarter of 2009. Kumba is expecting a ruling on the matter during the first half of 2010.

Rand million	2009	2008
<b>34. Commitments</b>		
<b>Operating lease commitments</b>		
The future minimum lease payments under non-cancellable operating leases are as follows:		
<b>Property</b>		
Within 1 year	7	18
Between 1 and 2 years	20	18
2 to 5 years	54	81
More than 5 years	27	11
	<b>108</b>	<b>128</b>
<b>Plant and equipment</b>		
Within 1 year	10	7
Between 1 and 2 years	2	8
	<b>12</b>	<b>15</b>
<b>Computer equipment</b>		
Within 1 year	–	1
2 to 5 years	2	–
	<b>2</b>	<b>1</b>
<b>Other</b>		
2 to 5 years	1	–
	<b>1</b>	<b>–</b>
<b>Total operating lease commitments</b>	<b>123</b>	<b>144</b>
<b>Commitments – shipping services</b>		
The future commitments under contracts for afreightment are as follows:		
Within 1 year	99	395
	<b>99</b>	<b>395</b>





### 35. Post-balance sheet events

On 6 January 2010, the SIOC Community Development SPV (Proprietary) Limited redeemed R336 million of the total preference shares of R458 million issued to Kumba Iron Ore Limited on 29 November 2006 as part of the group's funding of the acquisition of a 3% interest in Sishen Iron Ore Company (Pty) Limited. In preparing the consolidated annual financial statements for the year ended 31 December 2009, the SIOC Community Development SPV (Proprietary) Limited is considered a special purpose entity, is consolidated for accounting purposes and will continue to be consolidated until the funding is redeemed in full.

During January 2010 Kumba issued financial guarantees to the Department of Mineral Resources (DMR) to the value of R567 million in respect of the environmental rehabilitation and decommissioning obligations of the group. This decreased the group's undrawn short-term borrowing facilities.

A final dividend of R7.40 per share was declared on 17 February 2010 from profits accrued during the year ended 31 December 2009. The total dividend for the year amounted to R14.60 per share. The estimated total cash flow of the final dividend of R7.40 per share, payable on 15 March 2010, is R2.4 billion.

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

### 36. Related party transactions

During the year the company and its subsidiaries, in the ordinary course of business, entered into various sales and purchases of goods and services with the ultimate holding company, Anglo American plc, its subsidiaries, associates and joint ventures. During 2008 certain borrowings were also placed with the holding company (Refer to note 9). The effect of these transactions is included in the results of the group. These transactions occurred under terms that are no less favourable than those arranged with third parties.

#### Holding company

Anglo American plc is the group's ultimate holding company. The interest in the group is held through a 53.06% holding by Anglo South Africa Capital (Pty) Limited (2008: 53.22%) and a 9.70% holding by Stimela Mining Holdings (Pty) Limited (2008: 9.73%).

#### Subsidiaries

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

### Associates and joint ventures

Details of investments in associates and joint ventures are disclosed in note 3 of the group financial statements and annexure 2.

### Special purpose entities

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

Entity	Nature of business
Sishen Iron Ore Community Development SPV (Pty) Limited	Investment vehicle
Sishen Iron Ore Employee Share Purchase Scheme (Envision)	Investment vehicle
Kumba Iron Ore Rehabilitation Trust	Trust fund for mine closure

### Directors and senior management

Details relating to directors' and the group's executive committee remuneration and shareholdings (including share options) are disclosed in the Kumba Iron Ore Limited remuneration report on pages 33 to 41.

### Shareholders

The principal shareholders of the company are detailed under "Shareholder analyses" on page 109.

### Material related party transactions

Rand million	2009	2008
<b>Purchase of goods and services</b>		
Holding company (interest on borrowings)	–	94
Fellow subsidiaries	137	95
Associates and joint ventures	182	103
	<b>319</b>	<b>292</b>
<b>Sale of goods and services</b>		
Holding company	92	89
Fellow subsidiaries	30	40
	<b>122</b>	<b>129</b>

# Kumba Iron Ore Limited Group

## Notes to the annual financial statements

for the year ended 31 December (continued)

### 36. Related party transactions (continued)

Rand million	2009	2008
<b>Amounts owing to related parties (after eliminating intercompany balances)</b>		
Holding company		
Derivative financial instruments	2	9
Fellow subsidiaries		
Trade payables	13	8
	<b>15</b>	<b>17</b>
<b>Amounts owing by related parties (after eliminating intercompany balances)</b>		
Holding company	43	126
Interest receivable	–	33
Derivative financial instruments	43	93
Fellow subsidiaries	5	2,884
Trade receivables	5	9
Cash and cash equivalents	–	2,875
Associates and joint ventures	20	8
Trade payables	–	3
Loans	20	5
	<b>68</b>	<b>3,018</b>

#### Acquisition of business

On 15 July 2009 Sishen Iron Ore Company (Pty) Limited (SIOC) acquired Taurus Investments SA, an Anglo American company incorporated in Luxembourg, from Anglo American Luxembourg SARL for a cash consideration of R115 million (US\$14 million) (Refer to note 29).

### 37. Segment reporting

The chief operating decision-maker which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Kumba executive committee. Management has determined the operating segments of the group based on the reports reviewed by the executive committee.

The executive committee considers the business principally according to the nature of the products and service provided, with the segment representing a strategic business unit. The reportable operating segments derive their revenue primarily from mining, extraction, production and selling of iron ore and shipping services charged to external clients.

Corporate, administration and other expenditure are not allocated to the different segments and form part of the reconciliation to profit before taxation under the heading 'Other segments'.

The Kumba executive committee assesses the performance of the operating segments based on a measure of earnings before interest and tax ('EBIT'). This measurement basis is consistent with 'Operating profit' in the financial statements. Interest income and expenditure are not allocated to segments, as this type of activity is managed on a central group basis.

The total segment revenue comprises revenue from external customers as the group does not have any inter-segment revenue. The revenue from external parties reported to the executive committee is measured in a manner consistent with that disclosed in the income statement.



### 37. Segment reporting (continued)

Rand million	Sishen Mine	Thabazimbi Mine	Shipping operations	Total
<b>2009</b>				
Revenue (from external customers)	19,473	543	3,392	23,408
EBIT	12,677	44	675	13,396
Depreciation	484	12	–	496
Total assets	724	240	–	964
Additions to non-current assets*	1,356	3	–	1,359
<b>2008</b>				
Revenue (from external customers)	18,308	640	2,412	21,360
EBIT	13,705	32	317	14,054
Depreciation	295	27	–	322
Total assets	620	80	–	700
Additions to non-current assets*	1,548	40	–	1,588

\* Other than financial instruments and deferred tax.

Rand million	2009	2008
<b>Total EBIT for reportable segments</b>	<b>13,396</b>	14,054
Other segments	(516)	(541)
<b>Operating profit</b>	<b>12,880</b>	13,513
Net finance costs	(127)	(251)
<b>Profit before taxation per the income statement</b>	<b>12,753</b>	<b>13,262</b>

#### Reconciliation of reportable segments' assets to total assets:

Total assets reported to the Kumba executive committee only comprises finished goods inventory. These assets are allocated based on the operations of the segment and the physical location of the assets. Non-current assets and current assets other than finished goods inventory are not allocated to segments and therefore form part of the reconciliation to total assets per the balance sheet.

Rand million	2009	2008
<b>Segment assets for reportable segments</b>	<b>964</b>	700
Other segments	1,595	1,179
<b>Inventory per balance sheet</b>	<b>2,559</b>	1,879
Other current assets	3,217	6,619
Non-current assets	12,031	8,205
<b>Total assets</b>	<b>17,807</b>	<b>16,703</b>

#### Revenue from external customers analysed by goods and services:

Revenue from external customers is derived from mining, extraction, production and selling of iron ore and shipping services charged.

Rand million	2009	2008
Sale of iron ore	20,016	18,948
Shipping services	3,392	2,412
<b>Revenue (from external customers)</b>	<b>23,408</b>	<b>21,360</b>

#### Geographical analysis

Kumba is domiciled in South Africa. The result of its revenue from external customers and its non-current assets (other than financial instruments, investments in associates and joint ventures and deferred tax assets) disclosed on a geographical basis, are set out below.

Rand million	2009	2008
<b>Revenue from external customers</b>	<b>1,359</b>	1,341
South Africa	22,049	20,019
Export		
China	16,770	9,203
Rest of Asia	3,128	5,598
Europe	2,151	5,218
<b>Total revenue</b>	<b>23,408</b>	<b>21,360</b>
<b>Non-current assets</b>		
China	1	–
Rest of Africa	–	1
South Africa	11,853	8,155
<b>Total non-current assets</b>	<b>11,854</b>	<b>8,156</b>

# Kumba Iron Ore Limited Company

## Balance sheet

as at 31 December

Rand million	Notes	2009	2008
<b>Assets</b>			
Long-term financial assets	1	122	458
Investments in subsidiaries	2	439	384
Deferred tax asset	3	1	8
<b>Non-current assets</b>		<b>562</b>	<b>850</b>
Current portion of long-term financial assets	1	336	–
Other receivables		20	17
Current tax asset	11	23	7
Cash and cash equivalents	4	84	40
<b>Current assets</b>		<b>463</b>	<b>64</b>
<b>Total assets</b>		<b>1,025</b>	<b>914</b>
<b>Equity and liabilities</b>			
Share capital and premium	5	270	222
Reserves		720	659
<b>Total equity</b>		<b>990</b>	<b>881</b>
<b>Liabilities</b>			
Provisions	6	1	13
<b>Non-current liabilities</b>		<b>1</b>	<b>13</b>
Other payables		34	20
<b>Current liabilities</b>		<b>34</b>	<b>20</b>
<b>Total liabilities</b>		<b>35</b>	<b>33</b>
<b>Total equity and liabilities</b>		<b>1,025</b>	<b>914</b>

# Kumba Iron Ore Limited Company

## Income statement

for the year ended 31 December

Rand million	Notes	2009	2008
Net operating (expenses)/income	7	(140)	1
<b>Operating (loss)/profit</b>		<b>(140)</b>	<b>1</b>
Finance income		75	59
Finance costs		(1)	–
Income from investments	8	6,469	3,847
<b>Profit before taxation</b>		<b>6,403</b>	<b>3,907</b>
Taxation	9	(13)	(4)
<b>Profit for the year</b>		<b>6,390</b>	<b>3,903</b>
<b>Total comprehensive income for the year</b>		<b>6,390</b>	<b>3,903</b>

The company did not have any non-owner changes in equity during the year other than the profit for the year, therefore no separate statement of other comprehensive income is presented for the year ended 31 December 2009.

# Kumba Iron Ore Limited Company

## Statement of changes in equity

for the year ended 31 December

Rand million	Share capital (note 5)	Share premium (note 5)	Equity-settled share-based payment reserve	Retained earnings	Total
Balance at beginning of year	3	96	48	483	630
Shares issued during the period	–	123	–	–	123
Equity-settled share-based payment expense	–	–	30	–	30
Total comprehensive income for the year	–	–	–	3,903	3,903
Dividends paid	–	–	–	(3,805)	(3,805)
<b>Balance at 31 December 2008</b>	<b>3</b>	<b>219</b>	<b>78</b>	<b>581</b>	<b>881</b>
Shares issued during the period	–	48	–	–	48
Equity-settled share-based payment expense	–	–	124	–	124
Total comprehensive income for the year	–	–	–	6,390	6,390
Dividends paid	–	–	–	(6,453)	(6,453)
<b>Balance at 31 December 2009</b>	<b>3</b>	<b>267</b>	<b>202</b>	<b>518</b>	<b>990</b>

# Kumba Iron Ore Limited Company

## Cash flow statement

for the year ended 31 December

Rand million	Notes	2009	2008
<b>Cash flows from operating activities</b>			
Cash utilised by operations	10	(121)	(9)
Net finance income		74	59
Income from investments		6,469	3,847
Taxation paid	11	(22)	(7)
Dividends paid		(6,453)	(3,805)
		<b>(53)</b>	<b>85</b>
<b>Cash flows from investing activities</b>			
Net decrease/(increase) in loans to subsidiaries		49	(242)
		<b>49</b>	<b>(242)</b>
<b>Cash flows from financing activities</b>			
Share capital issued	5	48	123
		<b>48</b>	<b>123</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>44</b>	<b>(34)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>40</b>	<b>74</b>
<b>Cash and cash equivalents at end of year</b>	4	<b>84</b>	<b>40</b>

# Kumba Iron Ore Limited Company

## Notes to the annual financial statements

for the year ended 31 December

R'000	2009	2008
<b>1. Long-term financial assets</b>		
Investment in SIOC Community Development SPV (Pty) Limited	458	458
Non-current long-term financial assets	122	458
Current portion of long-term financial assets	336	–
	<b>458</b>	<b>458</b>

Fully paid up preference shares redeemable at the option of the issuer. R336 million of this investment was redeemed on 6 January 2010. Refer to note 12 'Post-balance sheet events'.

### Currency analysis of long-term financial assets

All long-term financial assets of the company are denominated in Rand.

### Credit risk

The preference shares are issued by a special purpose entity controlled by the company with the capacity for payment of financial commitments considered strong.

### Fair value of cash and cash equivalents

The carrying amount of the preference shares approximates its fair value because it is fully paid up and does not earn interest.

Rand million	2009	2008
<b>2. Investments in subsidiaries</b>		
<b>Reflected as non-current assets</b>		
Shares at cost	3	3
Share-based payment expenditure <sup>1</sup>	175	58
Long-term loans to subsidiaries <sup>2</sup>	261	323
<b>Net investments in subsidiaries</b>	<b>439</b>	<b>384</b>

1. Arising from the accounting for share-based payment transactions in terms of IFRIC 11: IFRS 2, Group and Treasury Share Transactions.

2. The loan to Kumba Holdings West Africa BV of R112 million was impaired following Kumba's termination of the group's exploration projects in West Africa.

Investments in subsidiaries are accounted for at cost.

For further details of interest in significant subsidiaries refer to annexure 1.

Rand million	2009	2008
<b>3. Deferred tax asset</b>		
Balance at beginning of year	8	12
Current year charge per the income statement	(7)	(4)
<b>Balance at end of year</b>	<b>1</b>	<b>8</b>
<b>Deferred tax assets are attributable to the following temporary differences</b>		
Share-based payments	–	4
Estimated tax losses	–	7
Other	1	(3)
<b>Total deferred tax assets</b>	<b>1</b>	<b>8</b>

Rand million	2009	2008
<b>4. Cash and cash equivalents</b>		
Cash in bank	84	40
<b>Currency analysis of cash and cash equivalents</b>		
Rand	84	40

### Credit risk

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

### Fair value of cash and cash equivalents

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





Number of shares	2009	2008
<b>5. Share capital and share premium</b>		
<b>Authorised</b>		
500,000,000 ordinary shares of R0.01 each	500,000,000	500,000,000
<b>Issued</b>		
Ordinary shares of R0.01 each	320,415,081	319,461,421
<b>Reconciliation of issued shares</b>		
Number of shares at beginning of year	319,461,421	317,103,501
Number of ordinary shares issued	953,660	2,357,920
<b>Number of shares at end of year</b>	<b>320,415,081</b>	<b>319,461,421</b>

For further detail refer to the group annual financial statements.

Rand million	2009	2008
<b>Reconciliation of share capital and premium</b>		
Share capital	3	3
Share premium	267	219
	<b>270</b>	<b>222</b>

Rand million	2009	2008
<b>6. Provisions</b>		
<b>Cash-settled share-based payments</b>		
Balance at beginning of year	13	24
Amounts utilised against provision	(10)	(2)
Cash-settled share-based payments	(2)	(9)
<b>Balance at 31 December</b>	<b>1</b>	<b>13</b>
<b>Expected timing of future cash flows</b>		
1 to 2 years	1	13

As a result of restrictions related to the empowerment transaction of Kumba Resources, certain executives and senior managers who participated in the Kumba Resources Management Share Option Scheme were not able to receive certain grants of options which would have been made in the ordinary course of operations. The human resources and remuneration committee of Kumba Resources consequently awarded "phantom options" to the affected participants. These phantom options were transferred to Kumba on unbundling.

Rand million	2009	2008
<b>7. Operating (expenses)/income</b>		
<b>Cost by type</b>		
Salaries and wages	(20)	(20)
Share-based payments	(6)	6
Pension and medical costs	(1)	(1)
Foreign currency revaluations and fair value adjustments	(13)	13
General charges	(1)	(7)
Impairment of investment (Refer to note 2)	(112)	–
Cost recoveries	13	10
	<b>(140)</b>	<b>1</b>
The above costs are stated after including:		
Directors' emoluments	11	10
Executive directors		
– Emoluments received as directors of the company	7	6
– Bonuses and cash incentives	2	2
Non-executive directors - emoluments as directors of the company	2	2

Rand million	2009	2008
<b>8. Income from investments</b>		
Dividends received from subsidiaries	6,469	3,847

# Kumba Iron Ore Limited Company

## Notes to the annual financial statements

for the year ended 31 December (continued)

Rand million	2009	2008
<b>9. Taxation</b>		
<b>Charge to income</b>		
SA normal tax		
Current year	4	–
Prior year	2	–
Deferred tax	7	4
<b>Total</b>	<b>13</b>	<b>4</b>

%	2009	2008
<b>Reconciliation of taxation rates</b>		
Taxation as a percentage of profit before taxation	0.2	0.1
Taxation effect of:		
Capital profits	(0.5)	–
Disallowable expenditure	(0.1)	–
Exempt income	28.5	27.9
Prior year underprovision	(0.1)	–
<b>Standard tax rate</b>	<b>28.0</b>	<b>28.0</b>

Rand million	2009	2008
<b>10. Cash utilised by operations</b>		
Operating (loss)/profit	(140)	1
Adjusted for:		
Foreign currency revaluations and fair value adjustments	13	(13)
Movement in provisions	(12)	(11)
Share-based payment expense	8	3
<b>Cash flows from operations</b>	<b>(131)</b>	<b>(20)</b>
Working capital movements:		
Increase in other receivables	(3)	(2)
Increase in other payables	13	13
	<b>(121)</b>	<b>(9)</b>

Rand million	2009	2008
<b>11. Taxation paid</b>		
Amounts unpaid at beginning of year	(7)	–
Amounts charged to the income statement	6	–
Amount paid during the year	(22)	(7)
<b>Current tax asset at end of year</b>	<b>(23)</b>	<b>(7)</b>

### 12. Post-balance sheet events

On 6 January 2010, the SIOC Community Development SPV (Proprietary) Limited redeemed R336 million of the total preference shares of R458 million issued to Kumba Iron Ore Limited on 29 November 2006.

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

# Kumba Iron Ore Limited Group

## Annexure 1: Investments in subsidiaries

for the year ended 31 December

					2009	
R'000	Country of incorporation <sup>1</sup>	Nature of business <sup>2</sup>	Percentage holding	Nominal issued capital	Investment at cost	Loans to subsidiaries
Direct investments						
Kumba Holdings West Africa BV	NE	E	100%	173,035	173,035	–
Sishen Iron Ore Company (Pty) Limited	RSA	A	74%	100	3,008,810	261,259,686
Main Street 576 (Pty) Limited	RSA	F	100%	100	100	–
Indirect investments						
Groler Investments Limited	SWL	E	100%	258,958	–	–
Kumba Hong Kong Limited	HK	B	100%	915	–	–
Kumba Hong Kong Shipping Limited	HK	C	100%	897	–	–
Kumba International BV	NE	B	100%	10,806,511	–	–
Kumba Investment West Africa BV	NE	E	100%	173,034	–	–
Kumba Iron Ore Holdings BV	NE	E	100%	154,654	–	–
Kumba Investments Guinea BV	NE	D	100%	189,381	–	–
Camfo Minerals CMS-SARL	GU	D	100%	69,838	–	–
Sud-Sud Group Development SA	GU	F	100%	–	–	–
Kumba International Trading SA	LUX	B	100%	55,335,369	–	–
Sishen South Mining (Pty) Limited	RSA	A	100%	1	–	–
Mineco Limited	MAU	F	100%	21	–	–
Oreco Leasing Limited	MAU	F	75%	17	–	–
Vulcan Leasing Limited	MAU	F	100%	19	–	–
Sibelo Resources Development (Pty) Limited	RSA	D	100%	2	–	–
Total investments in subsidiaries					3,181,945	261,259,686

Rand million

### Aggregate attributable after tax profits/(losses) of subsidiaries:

Profits	8,823
Losses*	(8,969)

\* Includes the impairment of investments in subsidiaries.

1 RSA – South Africa, NE – Netherlands, HK – Hong Kong, SWL – Switzerland, MAU – Mauritius, LUX – Luxembourg, GU – Guinea.

2 A – Mining, B – Iron ore marketing and sales, C – Shipping charter, D – Exploration, E – Investment holding, F – Dormant.

# Kumba Iron Ore Limited Group

## Annexure 2: Investments in associates, joint ventures and other investments

for the year ended 31 December

R'000	Nature of business <sup>1</sup>	Number of shares held	Percentage holding	Investment at cost	Group Loan balance		Company Loan balance	
					2009	2008	2009	2008
<b>Associates</b>								
<b>Unlisted</b>								
Manganore Iron Mining Limited <sup>2</sup>	A	25,000	50%	50	–	–	–	–
<b>Incorporated joint ventures</b>								
<b>Unlisted</b>								
Pietersburg Iron Company (Pty) Limited	A	4,000	50%	3,740	19,840	5,470	–	–
Safore (Pty) Limited <sup>2</sup>	B	400	40%	–	–	–	–	–
Sishen Shipping (Pty) Limited <sup>2</sup>	B	400	40%	–	–	–	–	–
Trans Orient Ore Supplies (Pty) Limited	C	2,000	50%	96	–	–	–	–
				3,836	19,840	5,470		
<b>Other investments</b>								
SIOC Community Development SPV (Pty) Limited <sup>3</sup>	E	458	100%	–	–	–	478,086	474,933
<b>Directors' valuation of investments at 31 December</b>								
Unlisted investments in associates				50	–	–	–	–
Unlisted investments in joint ventures				3,836	19,840	5,470	–	–
Other investments				–	–	–	478,086	474,933

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

All above entities are incorporated in South Africa other than Trans Orient Ore Supplies (Pty) Limited which is incorporated in Hong Kong.

1 A – Mining, B – Shipping charter, C – Iron ore merchant, D – Community development.

2 Dormant.

3 Fully paid up redeemable preference shares at the option of the issuer.

# Kumba Iron Ore Limited Group

## Annexure 3: Balance sheet – US Dollar convenience translation

as at 31 December (unaudited supplementary information)



US Dollar million	2009	2008
<b>Assets</b>		
Property, plant and equipment	1,565	844
Biological assets	1	1
Investments in associates and joint ventures	3	1
Investments held by environmental trust	38	25
Long-term prepayments	4	3
Deferred tax assets	17	1
<b>Non-current assets</b>	<b>1,628</b>	<b>875</b>
Inventories	346	201
Trade and other receivables	296	241
Current tax asset	18	58
Cash and cash equivalents	121	407
<b>Current assets</b>	<b>781</b>	<b>907</b>
<b>Total assets</b>	<b>2,409</b>	<b>1,782</b>
<b>Equity and liabilities</b>		
Shareholders' equity	985	732
Minority interest	227	176
<b>Total equity</b>	<b>1,212</b>	<b>908</b>
<b>Liabilities</b>		
Interest-bearing borrowings	522	104
Provisions	63	41
Deferred tax liabilities	309	212
<b>Non-current liabilities</b>	<b>894</b>	<b>357</b>
Short-term interest-bearing borrowings	7	307
Short-term provisions	1	33
Trade and other payables	292	177
Current tax liabilities	3	-
<b>Current liabilities</b>	<b>303</b>	<b>517</b>
<b>Total liabilities</b>	<b>1,197</b>	<b>874</b>
<b>Total equity and liabilities</b>	<b>2,409</b>	<b>1,782</b>
<b>Exchange rate</b>		
Translated at closing Rand/US Dollar exchange rate	7.39	9.37

# Kumba Iron Ore Limited Group

## Annexure 4: Income statement – US Dollar convenience translation

for the year ended 31 December (unaudited supplementary information)

US Dollar million	2009	2008
Revenue	2,790	2,589
Operating expenses	(1,255)	(951)
<b>Operating profit</b>	<b>1,535</b>	<b>1,638</b>
Finance income	34	19
Finance costs	(49)	(49)
<b>Profit before taxation</b>	<b>1,520</b>	<b>1,608</b>
Taxation	(471)	(507)
<b>Profit for the year</b>	<b>1,049</b>	<b>1,101</b>
<b>Attributable to:</b>		
Owners of Kumba	831	874
Minority interest	218	227
	<b>1,049</b>	<b>1,101</b>
<b>Earnings per share for profit attributable to the owners of Kumba (US Dollar per share)</b>		
Basic	2.61	2.76
Diluted	2.59	2.73
<b>Exchange rate</b>		
Translated at average Rand/US Dollar exchange rate	8.39	8.25

# Kumba Iron Ore Limited Shareholder analysis

Register date: 31 December 2009

Issued share capital: 320,415,081

	Number of shareholdings	%	Number of shares	%
<b>Shareholder spread</b>				
1 – 1 000 shares	15,685	89.14	3,646,031	1.14
1 001 – 10 000 shares	1,584	9.00	4,587,304	1.43
10 001 – 100 000 shares	275	1.56	8,248,300	2.57
100 001 – 1 000 000 shares	41	0.23	12,847,489	4.01
1 000 001 shares and over	13	0.07	291,085,957	90.85
<b>Totals</b>	<b>17,598</b>	<b>100.00</b>	<b>320,415,081</b>	<b>100.00</b>
<b>Distribution of shareholders</b>				
Banks	139	0.79	31,312,289	9.77
Close Corporations	151	0.86	97,291	0.03
Endowment Funds	60	0.34	122,139	0.04
Individuals	14,492	82.35	6,270,656	1.96
Insurance Companies	37	0.21	2,806,832	0.88
Investment Companies	53	0.30	9,935,896	3.10
Medical Schemes	3	0.02	12,438	0.00
Mutual Funds	185	1.05	6,281,798	1.96
Nominees & Trusts	1,977	11.23	4,044,717	1.26
Other Corporations	57	0.32	50,328	0.02
Private Companies	308	1.75	203,048,937	63.37
Public Companies	13	0.07	42,624,588	13.30
Retirement Funds	120	0.69	13,644,262	4.26
Share Trusts	3	0.02	162,910	0.05
<b>Totals</b>	<b>17,598</b>	<b>100.00</b>	<b>320,415,081</b>	<b>100.00</b>
<b>Public/non-public shareholders</b>				
<b>Non-public Shareholders</b>				
Directors and associates of the company holdings	3	0.01	21,436	0.01
Strategic Holdings	2	0.01	242,591,115	75.71
Share Trusts	3	0.02	162,910	0.05
Related Holdings	5	0.03	1,898,821	0.59
<b>Public shareholders</b>	<b>17,585</b>	<b>99.93</b>	<b>75,740,799</b>	<b>23.64</b>
<b>Totals</b>	<b>17,598</b>	<b>100.00</b>	<b>320,415,081</b>	<b>100.00</b>
<b>Beneficial shareholders holding 3% or more</b>				
Anglo American			201,092,500	62.76
Industrial Development Corporation of South Africa Ltd			41,498,615	12.95
Public Investment Corporation			12,285,349	3.83
<b>Totals</b>			<b>254,876,464</b>	<b>79.54</b>

# Kumba Iron Ore Limited

## Breakdown of non-public holdings

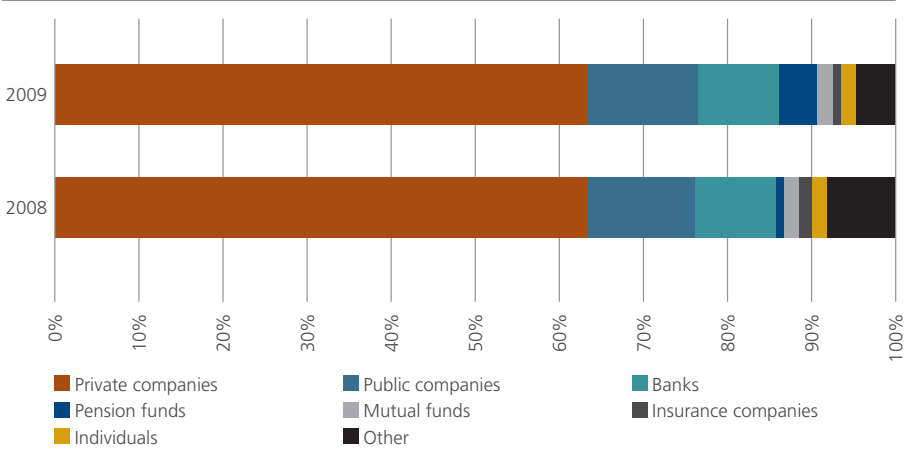
	Number of shares	%
<b>Directors of the company</b>		
<b>Uren, VP</b>	<b>13,778</b>	<b>0.00</b>
Uren, VP	9,528	0.00
Uren, VP	2,250	0.00
VN Centurien Trust	2,000	0.00
<b>Griffith, CI</b>	<b>7,658</b>	<b>0.00</b>
Griffith, CI	7,328	0.00
Griffith, CL	330	0.00
<b>Totals</b>	<b>21,436</b>	<b>0.00</b>
<b>Strategic holdings</b>		
Anglo South Africa Capital (Pty) Ltd	201,092,500	62.76
Industrial Development Corporation of South Africa Ltd	41,498,615	12.95
<b>Totals</b>	<b>242,591,115</b>	<b>75.71</b>
<b>Breakdown of beneficial shareholders holding 3% or more</b>		
<b>Anglo American</b>		
Anglo South Africa Capital (Pty) Ltd	201,092,500	62.76
<b>Industrial Development Corporation of South Africa Ltd</b>		
Industrial Development Corporation of South Africa Ltd	41,498,615	12.95
<b>Public Investment Corporation</b>	12,285,349	3.83
<b>Totals</b>	<b>254,876,464</b>	<b>79.54</b>



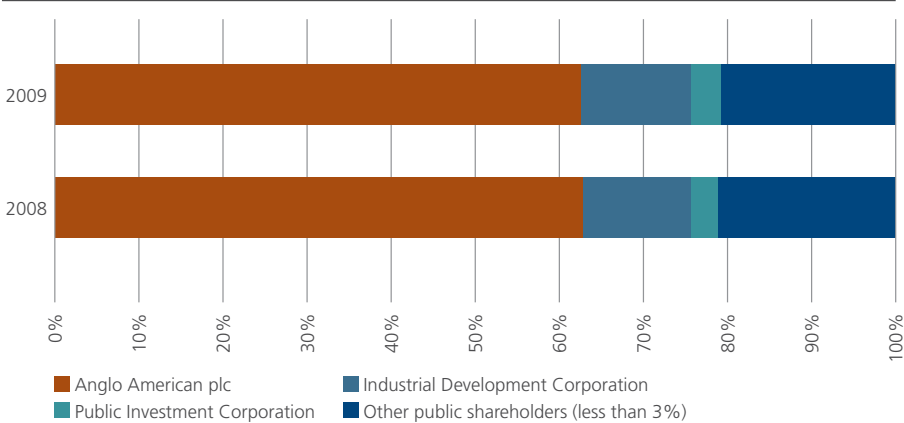


# Kumba Iron Ore Limited Shareholder ownership

MAJOR CATEGORIES OF SHAREHOLDERS (% OF SHARES)



MAJOR SHAREHOLDERS (% OF SHARES)



# Shareholders' diary

Financial year-end	31 December 2010
Reports and accounts	Published
Announcement of interim results	July 2010
Interim report for the half-year ending 30 June	August 2010
Announcement of annual results	16 February 2011
Annual financial review	March 2011
Distribution	
Final dividend declaration	13 February 2010
Payment	16 March 2010
Interim dividend declaration	July 2010
Payment	September 2010

# Kumba Iron Ore Limited administration

## Secretary and registered office

VF Malie  
Centurion Gate – Building 2  
Corner John Vorster and Akkerboom Street  
Zwartkop Extension 22  
Centurion, Pretoria, 0046  
Republic of South Africa  
Tel: +27 12 683 7000  
Fax: +27 12 683 7009

Company registration number:  
2005/015852/06

JSE share code:  
KIO

ISIN code:  
ZAE000085346

## Auditors

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

## Sponsor

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

## Corporate law advisors

Deneys Reitz Inc  
82 Maude Street  
Sandton, 2196  
South Africa  
PO Box 784903, Sandton, 2146  
United States ADR Depository  
The Bank of New York  
ADR Department, 101 Barclay Street  
New York, NY 10286  
United States of America

## Transfer secretaries

Computershare Investor Services (Pty) Limited  
70 Marshall Street  
Johannesburg, 2001  
South Africa  
PO Box 61051, Marshalltown, 2107