



**DELIVERING CHANGE
BUILDING RESILIENCE
FOCUSED PERFORMANCE**



AUDITED ANNUAL FINANCIAL STATEMENTS

OUR APPROACH TO REPORTING

DELIVERING CHANGE. BUILDING RESILIENCE. FOCUSED PERFORMANCE

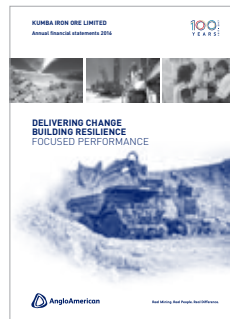
The Annual Financial Statements 2016 were published on 10 April 2017. You can find this report and additional information about Kumba Iron Ore Limited on our corporate website.

Directors' declaration

The Kumba Iron Ore Limited (Kumba or the Company or the group) Board, assisted by the Audit Committee, is ultimately responsible for the preparation, fair presentation and integrity of the audited annual financial statements and related financial information of the group, as contained in this report, the Annual Financial Statements 2016. The Board of directors confirm that they have collectively reviewed the content of this report and approved it at its meeting on 8 March 2017, for presentation to shareholders at the next annual general meeting on 11 May 2017. The Annual Financial Statements 2016 have been prepared under the supervision of FT Kotzee CA(SA), Chief financial officer.

Navigating our 2016 reports

For more information see www.angloamericankumba.com



ANNUAL FINANCIAL STATEMENTS (AFS)

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



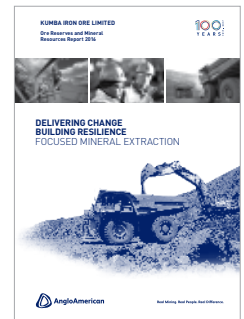
INTEGRATED REPORT (IR)

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



SUSTAINABILITY REPORT (SR)

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



ORE RESERVES AND MINERAL RESOURCES REPORT (ORMR)

Reported in accordance with the South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC 2007; July 2009 amended).

KEY FEATURES

REGRETTABLY **two** FATALITIES

SISHEN
21.4%

RESIDUAL MINING RIGHT AWARDED

SETTLEMENT AGREEMENT REACHED
WITH SARS

SUBSTANTIAL
34%
REDUCTION IN CONTROLLABLE COSTS

REDUCED AVERAGE CASH BREAKEVEN
PRICE OF
US\$29/tonne

HEPS OF
R27.30

PER SHARE, UP 131%

BALANCE SHEET STRENGTHENED
TO NET CASH POSITION OF

R6.2 BILLION

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KUMBA IRON ORE LIMITED COMPANY

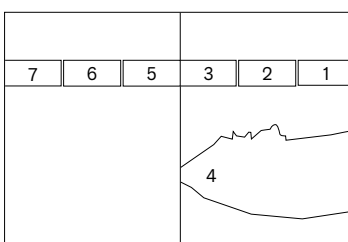
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Front cover

1. Thabile Shoba, Eugene Daniel, Carl Abbott, Rhoshaan Jina and Titus Hlaletgiwa, operational heads at Kolomela mine conducting a meeting in the "War room" to discuss the daily operational issues.
2. Lizinda Members, a drill rig operator and Tebogo Ernest Bolokang, a drill rig assistant on a CAT C313 drill rig in the Leeuwfontein pit at Kolomela mine.
3. A view of a Komatsu WA1200 wheel loader in the main Leeuwfontein pit at Kolomela mine.
4. Load and haul truck operations in the Leeuwfontein pit at Kolomela mine.

Back cover

5. A view of Komatsu 730 trucks in the Leeuwfontein pit at Kolomela mine.
6. Charles Links and Pascalis Rafuthu, haul truck operators and Cans Mabuya, a safety officer conducting a pre-shift safety check in the Leeuwfontein pit at Kolomela mine.
7. Load and haul truck operations in the Leeuwfontein pit at Kolomela mine.

FINANCIAL REVIEW



Frikkie Kotzee – Chief financial officer

Kumba's full year results reflected a robust financial performance despite uncertain and volatile commodity prices. Revenue

showed a 13% increase to R40.8 billion due to the recovery in the realised free-on-board iron ore price – averaging US\$64/tonne in 2016, up from US\$53/tonne in 2015. Operating profit was 78% higher than in 2015 (excluding the impairment recognised for Sishen in 2015). Headline earnings per share increased by 131% to R27.30.

Strict capital and cost discipline delivered significant results. Kumba ended the year with a net cash position of R6.2 billion, compared to a net debt position of R4.6 billion in 2015. Excluding mineral royalties, deferred stripping and impairments, operating expenses were 18% lower than last year as the transformation of our cash cost base increased cash generated from operations to R17.2 billion. Capital expenditure was down 65% to R2.4 billion. Kumba delivered exceptional results and our aim remains to continue working towards growing sustainable free cash flow and reinstating the dividend.

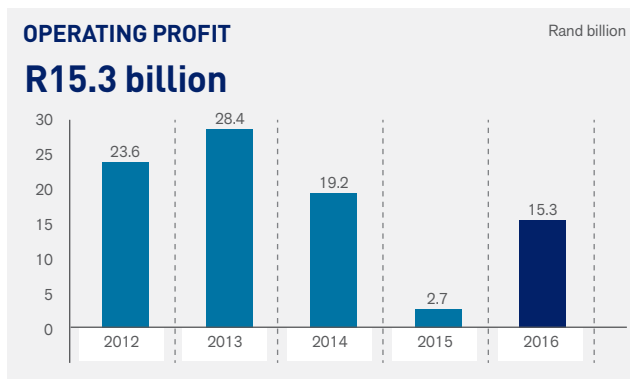
FINANCIAL OVERVIEW*

Rand million	31 December 2016	31 December 2015	% change	31 December 2014	31 December 2013
Revenue	40,767	36,138	13	47,597	54,461
Operating expenses	(25,451)	(33,494)	(24)	(28,405)	(26,076)
Operating expenses (excluding royalty, deferred stripping costs and impairment)	(24,782)	(30,177)	(18)	(28,628)	(24,742)
Impairment	(4)	(5,978)	(100)	(439)	–
Mineral royalty	(986)	(191)	416	(1,176)	(2,157)
Deferred stripping capitalised	321	2,852	(89)	1,838	823
Operating profit	15,316	2,644	479	19,192	28,385
Operating margin (%)	38	7		40	52
Profit attributable to:	11,144	627	1,677	14,148	20,300
Equity holders of Kumba	8,621	469	1,738	10,724	15,446
Non-controlling interest	2,523	158	1,497	3,424	4,854
Headline earnings	8,724	3,792	130	11,006	15,443
Effective tax rate (%)	26	69		25	28
Cash generated from operations	17,218	13,841	24	21,769	29,354
Capital expenditure	2,353	6,752	(65)	8,477	6,453
Net (cash)/debt	(6,165)	4,604	(234)	7,929	1,796
Equity	36,536	25,167	45	27,001	27,184

*Including discontinued operations.

Following the decision to close the Thabazimbi mine in 2015, mining activities ceased in September 2015 and the remaining plant operations ceased in 2016. The Thabazimbi operation is therefore classified as a discontinued operation for the year ended 31 December 2016, and as a result, the comparative figures have been restated to present the discontinued operation separately from continuing operations.

The Thabazimbi mine assets and related liabilities that will transfer to ArcelorMittal SA have been presented separately in the balance sheet as assets and liabilities of the disposal group held for sale at 31 December 2016.



PERFORMANCE SUMMARY

- ✓ Increase in average **FOB iron ore prices** achieved – US\$64/tonne (including price realisation of US\$7/tonne)
- ✓ **Operating expenses** decreased to R25.5 billion from R33.5 billion (including impairments), principally as a result of the stringent cash preservation measures implemented. The main drivers of the decrease in cost were:
 - R1.4 billion reduction in overhead costs
 - R2.7 billion due to reconfiguration of the Sishen pit
 - Draw down of stock, which added R947 million
 - R669 million lower freight costs due to lower freight rates
 - Partially offset by R2.6 billion lower waste stripping deferred to the balance sheet and inflationary linked input cost pressure of R995 million
- ✓ **Operating profit** of R15.3 billion increased by 78% (2015: R8.6 billion excluding impairment). Kumba's operating profit margin increased to 38% (2015: 24%), 41% from mining activities (2015: 27%). The weakening of the Rand/US\$ exchange rate and recovery in iron ore prices during 2016 contributed to the increase in profitability
 - Headline earnings of R27.30 per share increased substantially from R11.82 in 2015
 - No dividends, due to continued market volatility
- ✓ **Net cash** position of R6.2 billion due to cash cost savings and reduced capex
- ✓ **Prudent capital management**
 - Significant capital reductions, R2.4 billion compared to R6.8 billion in 2015

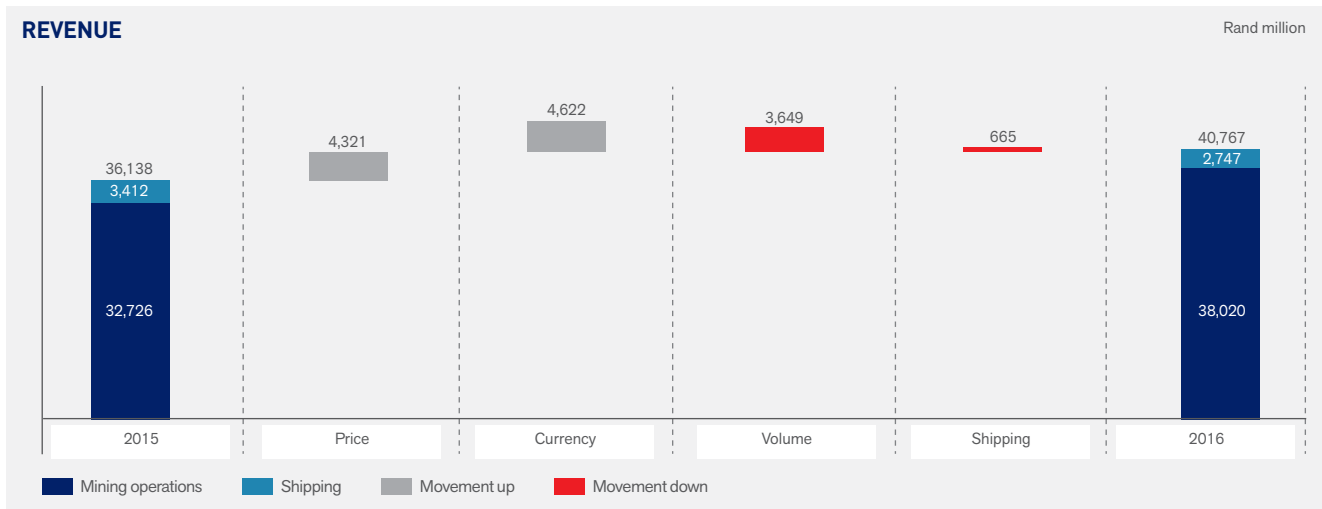
REVENUE

The group's total revenue of R40.8 billion (comprising R38.0 billion from mining and R2.8 billion from shipping operations) was 13% higher than 2015 revenue (R36.1 billion). This was mainly due to the 21% recovery in average realised FOB export prices, which increased revenue by R4.3 billion year-on-year and the 15% weaker Rand against the US Dollar, raising revenue by R4.6 billion, this was partially offset by the 5.3 Mt decrease in sales volumes due to reduced production at Sishen, which reduced revenue by R3.6 billion.

This year Kumba sold 42.5 Mt, 39.1 Mt on the export market, 10% lower than 2015. Export sales to China accounted for 64% of the Company's total in line with 2015. Exports to Japan and South Korea decreased to 17% of the total. Sales to Europe and MENA increased to 14% of total sales during the year.

Domestic sales of 3.4 Mt were 0.9 Mt lower than 2015, as a result of reduced ArcelorMittal SA off-take from Sishen. Sales to ArcelorMittal SA were made under the new pricing agreement, based on Export Parity Price at an average of around R836/tonne.

FINANCIAL REVIEW CONTINUED

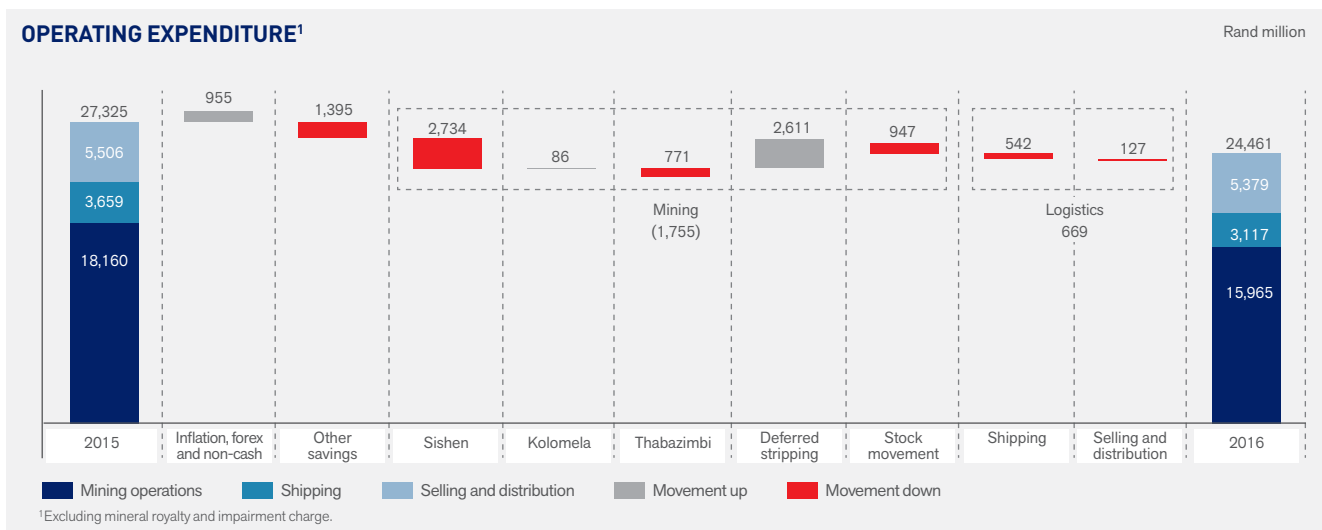


OPERATING EXPENDITURE

Mining costs were down 17% in real terms aided by lower mining volumes, fuel prices and contractors' rates, partly offset by lower capitalisation of deferred stripping costs.

Cost movements were driven principally by inflationary-linked input-cost pressure of R1 billion and higher royalty costs as a result of the higher free-on-rail revenue. These were offset by lower cash costs of R3.5 billion due to the lower mining volumes including overhead cost savings of R1.4 billion.

An 11% decrease in shipped tonnes, together with a 15% decrease in freight rates, resulted in R669 million lower selling and distribution costs. Engagement with Transnet is ongoing to mitigate possible penalties in contractual rail volumes, as a result of lower production from Sishen.

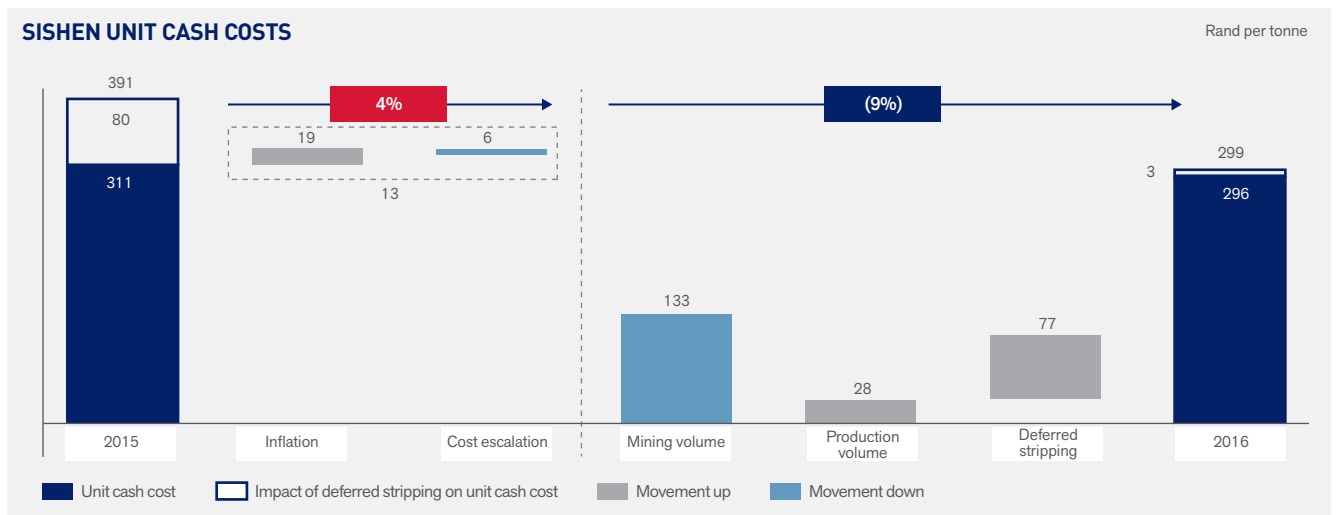


UNIT CASH COSTS

Sishen mine

Sishen's unit cash cost benefited from 85 Mt lower mining volumes and reduced 5% to R296/tonne, compared to R311/tonne in 2015, this was offset by a 4% increase in inflationary input costs of R13/tonne and lower capitalisation of deferred waste stripping costs of R77/tonne driven by a lower stripping ratio (2016: 3.3 compared to 5.7 in 2015).

In 2017, our target is to keep Sishen's unit cash cost, net of capitalisation of deferred stripping cost, below mining inflation through productivity initiatives. The Operating Model will be used to achieve a 20% improvement in mining equipment efficiencies and maintain cost discipline.



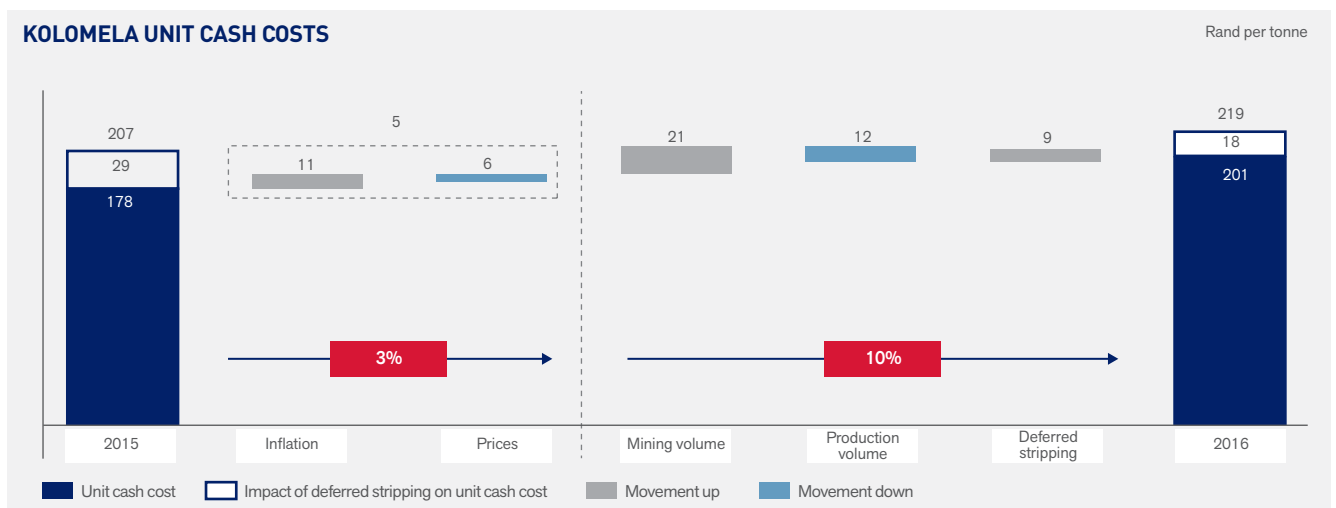
Kolomela mine

At Kolomela, unit cash costs increased by R23/tonne mainly due to a ramp-up in mining volumes in support of further production volume growth. The mine contained cost escalation at 3%, well below inflation, aided by lower fuel prices. Unit cash costs amounted to R201/tonne, an increase of 13% on 2015. While cost escalation added R5/tonne, lower capitalisation of deferred stripping increased unit costs by R9/tonne, offset by increased production volumes of around R12/tonne.

Looking to the year ahead, Kolomela cash unit cost, net of capitalisation of deferred stripping cost, is anticipated to increase mainly due to cost escalations and the commissioning of the DMS modular plant, which attracts higher crushing costs at a lower plant yield, but still remains extremely profitable at an iron ore price above US\$40/tonne.

We aim to keep the growth of Kolomela's unit cash costs below mining inflation by targeting a 20% improvement in fleet efficiency for 2017.

The ramp up of the modular plant is expected to be completed in 2017.



FINANCIAL REVIEW CONTINUED

TAXATION

Kumba agrees settlement with SARS

On 3 February 2017, Kumba announced its agreement with SARS to settle a dispute relating to the assessments received for the years 2006 to 2010, and the tax treatment of the relevant issues in the years 2011 to 2015, inclusive, for a full and final total settlement amount of R2.5 billion.

Kumba had previously provided for an amount of R1.5 billion in its Annual Financial Statements for the tax years up to 2015, and an additional R1.0 billion was accounted for in 2016 in respect of this settlement agreement. The settlement will be paid in full in the first quarter of 2017, with appropriate adjustments made for current advance payments held on account.

The 2016 tax charge has been computed on a basis that is consistent with the settlement agreement.

Kumba has always conducted itself as a responsible corporate taxpayer, and has continually sought expert advice over the years. We believe this agreement is appropriate and in the best interest of both parties.

CAPITAL EXPENDITURE

Kumba spent R2.4 billion on capital in 2016. This included expansion capex of R0.9 billion (mainly on the Dingleton relocation project), R1.2 billion on stay-in-business (SIB) activities such as heavy mining equipment and infrastructure, and R321 million on deferred stripping.

Capital expenditure for 2017, including deferred stripping, is expected to be in the range of R2.6 billion to R2.8 billion, increasing to between R3.5 billion and R3.7 billion for 2018, excluding unapproved projects.

Impairment assessment

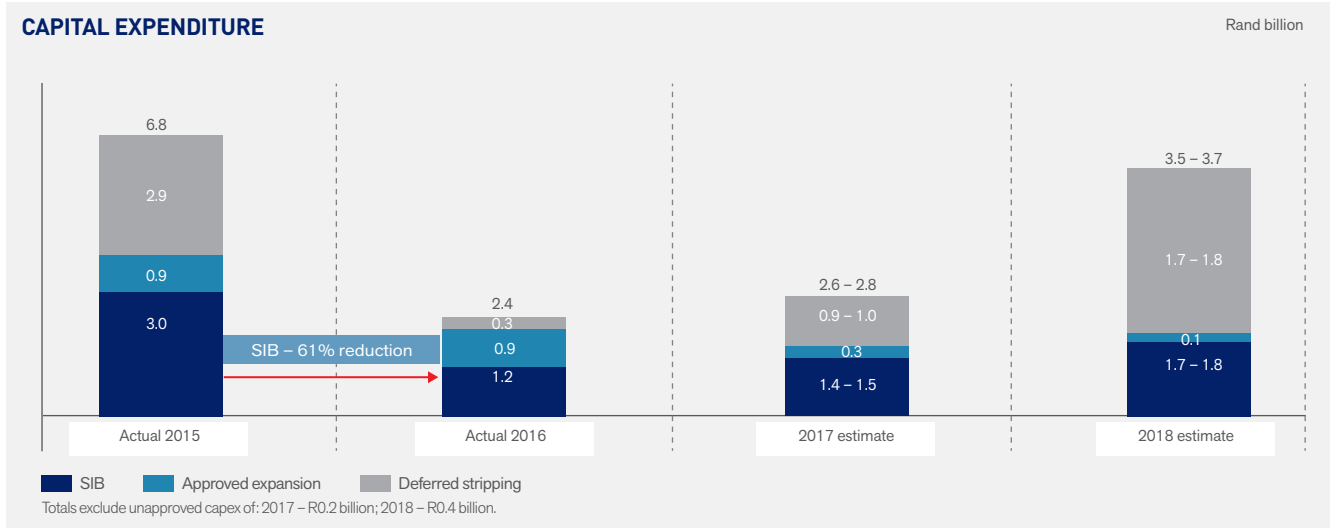
In the prior year, Kumba recognised an impairment loss with respect to the property, plant and equipment of Sishen mine. Given that market conditions have improved in the current year, it was considered appropriate to reassess Sishen mine for impairment at 31 December 2016.

Despite the short-term volatility in iron ore prices, continued supply growth is expected to put pressure on iron ore prices. As a result, the group's assumption on the long-term iron ore price outlook remains conservative. In this context, the resulting headroom for the Sishen mine of R0.4 billion was considered not to be significant and therefore no portion of the impairment charge previously recognised was reversed.

CAPITAL EXPENDITURE ANALYSIS

	2015	2016	12 months 31 December 2017	12 months 31 December 2018
Rand million			Medium-term forecast	
Approved expansion	870	856	~300	~100
Deferred stripping	2,852	321	900 – 1,000	1,700 – 1,800
Sishen	2,508	88	600 – 700	1,400 – 1,500
Kolomela	344	233	~300	~300
SIB Sishen	2,418	875	900 – 1,000	1,000 – 1,100
SIB Kolomela	612	301	~500	~700
Total approved capital expenditure	6,752	2,353	2,600 – 2,800	3,500 – 3,700
Unapproved expansion ¹	–	–	~200	~400
Total approved and unapproved capital expenditure	6,752	2,353	2,800 – 3,000	3,900 – 4,100

¹Unapproved capex includes high-level estimates for the project pipeline. All guidance based on current forecast exchange rates. Cash capex depicted in table.

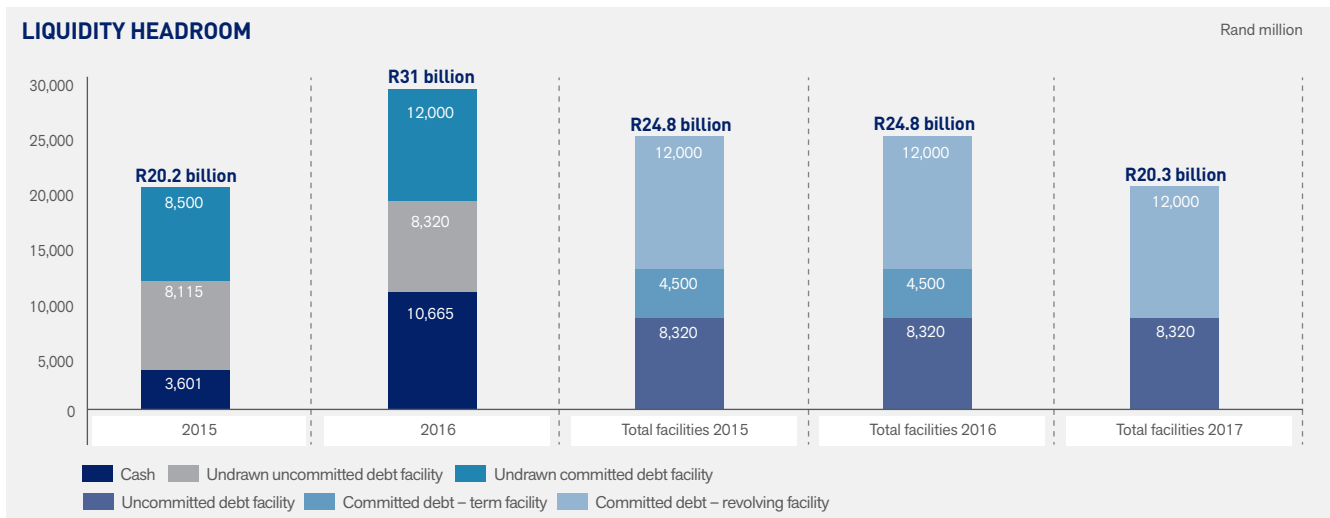


CASH FLOW

This year, cash generated amounted to R17.2 billion, 24% higher than in 2015 (R13.8 billion). The cash was used to pay income tax of R3.4 billion (2015: R0.6 billion), mineral royalties of R1 billion (2015: R0.4 billion) and capital expenditure of R2.4 billion (2015: R6.8 billion).

NET DEBT AND LIQUIDITY

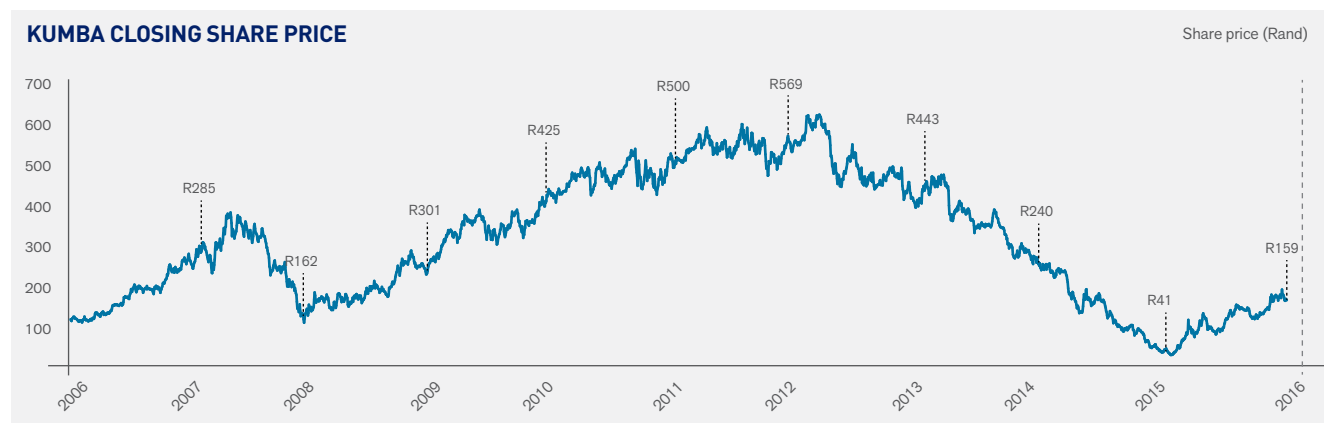
During the year Kumba made exceptional progress in strengthening the balance sheet. The group ended 2016 with net cash of R6.2 billion, compared to a net debt position of R4.6 billion in 2015. Continued robust operational focus allowed for strong cash generation notwithstanding the volatile iron ore price environment. Total committed facilities are R16.5 billion and mature in 2020. The Board approved the early settlement of the term facility on 3 February 2017 and the loan was repaid on 13 February 2017, effectively reducing the group's committed debt facilities to R12 billion. Financial guarantees issued in favour of the DMR in respect of environmental closure liabilities were R2.8 billion. As a result of the annual revision of closure costs a further shortfall of R311 million arose in respect of the rehabilitation of the Thabazimbi mine (of which ArcelorMittal SA has guaranteed R300 million of this amount by means of bank guarantees issued in favour of Sishen Iron Ore (Pty) Ltd (SIOC)). Guarantees will be issued in due course.



SHAREHOLDER RETURNS

Kumba's share price recovered significantly during the year from R41 at 31 December 2015 to R159. The share price history since listing is presented below. Given the uncertain iron ore price environment, dividends will be reinstated at the appropriate time.

FINANCIAL REVIEW CONTINUED



CHANGE IN ESTIMATES

The measurement of the environmental rehabilitation and decommissioning provisions are a key area where management's judgement is required. The closure provisions are measured at the present value of the expected future cash flows required to perform the rehabilitation and decommissioning. This calculation requires the use of certain estimates and assumptions when determining the amount and timing of the future cash flows and the discount rate. The closure provisions are updated at each balance sheet date for changes in these estimates.

The life-of-mine (LoM) plan on which accounting estimates are based only includes proved and probable ore reserves as disclosed in Kumba's annual ore reserves and mineral resources statement. This resulted in an insignificant increase in provisions.

The effect of the change in estimate, which was applied prospectively from 1 January 2016, is detailed below:

Change in estimates	
Rand million	2016
Decrease in environmental rehabilitation provision	(6)
Increase in decommissioning provision	9
Decrease in profit attributable to the owners of Kumba	(3)
Rand per share	
Decrease in earnings per share attributable to the owners of Kumba	-

The change in estimate in the decommissioning provision has been capitalised to the related property, plant and equipment and as a result had no effect on profit or earnings per share.

DISCONTINUED OPERATIONS AND DISPOSAL GROUP ASSETS HELD FOR SALE

All remaining plant operations at the Thabazimbi mine ceased in 2016 following the decision to close the mine in 2015. The Thabazimbi operation is classified as a discontinued operation for the year ended 31 December 2016, and as a result, the comparative figures have been restated to show the discontinued operation separately from continuing operations. Analysis of the result of the Thabazimbi mine is as follows:

Results of discontinued operation		
Rand million	31 December 2016	31 December 2015
Revenue	612	878
Operating expenses	(571)	(930)
Operating profit/(loss)	41	(52)
Net finance income	4	94
Profit before tax	45	42
Income tax expense	(42)	(132)
Profit/(loss) after income tax of discontinued operation	3	(90)
Attributable to owners of Kumba	2	(69)
Attributable to non-controlling interest	1	(21)
Profit/(loss) from discontinued operation	3	(90)
Cash flow from discontinued operations		
Net cash flows from operating activities	279	639

SIOC and ArcelorMittal SA have entered into an agreement to transfer Thabazimbi mine to ArcelorMittal SA. The agreement is expected to become effective in 2017, subject to certain conditions. Mining operations at Thabazimbi ceased in 2015. The identified assets and liabilities of Thabazimbi mine (as indicated in the disclosure below) will be transferred at a nominal purchase consideration plus the assumed liabilities. If the conditions have not been satisfied by 28 April 2017 (or a later date agreed to by the companies), the agreement will lapse and SIOC will proceed with closure of the mine.

In line with the requirements of IFRS 5 Thabazimbi mine's assets and related liabilities that will transfer to ArcelorMittal SA will be presented as part of non-current assets held for sale as at 31 December 2016. In addition, the results of Thabazimbi mine are presented as a discontinued operation for the year ended 31 December 2016. Comparative figures have been restated where required. An impairment loss of R4 million has been recognised related to the Thabazimbi mine assets that were not part of the lease with ArcelorMittal SA.

Assets of disposal group held for sale and the associated liabilities	
Rand million	2016
ASSETS	
Property, plant and equipment	8
Biological assets	18
Investments held by environmental trust	296
Long-term payments and other receivables	515
Inventories	5
Trade and other receivables	96
Total assets	938
LIABILITIES	
Non-current provisions	(822)
Current provisions	(114)
Total liabilities	(936)
Net carrying amount sold	2

THE OUTLOOK REMAINS CHALLENGING

While the substantial restructuring at Sishen mine was implemented successfully, we remain focused on improving operational efficiencies to realise the full potential of our assets, to provide confidence in delivery and enhance profitability.

Kumba will continue with disciplined capital allocation and prioritising the reinstatement of dividends.

I would like to thank Norman for the past four years. It has certainly been a challenging period, but I couldn't have asked for a better boss, partner, mentor and friend. I have learned a tremendous amount from him and wish him well in his new role.

I would like to conclude by thanking all my colleagues in the finance team for their support during this year of transition. All decisions made were well implemented and executed.

After five years serving as Chief financial officer and with a strengthened balance sheet and a major restructuring of the business successfully executed, I believe the time is right for me to step down.

It has been very rewarding professionally and I have had the privilege of working with an exceptional Board and management team.

Frikkie Kotzee

Chief financial officer

8 March 2017

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

for the year ended 31 December 2016

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

The annual financial statements, set out on pages 34 to 106, are based on appropriate accounting policies which have been consistently applied, except for changes in accounting policies as detailed in the notes, and which are supported by reasonable and prudent judgements and estimates, comprise the balance sheets at 31 December 2016; the income statements, the statements of comprehensive income, the statements of changes in equity and cash flow statements for the year then ended; the notes to the financial statements, which include a summary of principal accounting policies and other explanatory notes; the directors' report, the Audit Committee report and the Company secretary report.

The directors, primarily through the Audit Committee, meet periodically with the external and internal auditors as well as the executive management to evaluate matters concerning the responsibilities below:

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

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

The independent 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. The independent auditor's report to the shareholders of the group and Kumba is set out on pages 31 to 33 of this report.

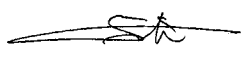
The external and internal auditors have unrestricted access to all records, property and personnel as well as to the Audit Committee.

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

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

APPROVAL OF GROUP ANNUAL FINANCIAL STATEMENTS AND ANNUAL FINANCIAL STATEMENTS

The group annual financial statements on pages 34 to 91 and 99 to 106 and the annual financial statements on pages 92 to 98 of Kumba Iron Ore Limited were approved by the Kumba Board of directors on 10 February 2017 and will be presented to the shareholders at the annual general meeting on 11 May 2017. The group and Company annual financial statements are signed on the directors' behalf by:



F Titi
Chairman
10 February 2017



TM Mkhwanazi
Chief executive

CERTIFICATE OF THE COMPANY SECRETARY

for the year ended 31 December 2016

I, A Parboosing, in my capacity as Company secretary, confirm that, for the year ended 31 December 2016, Kumba Iron Ore Limited has lodged with the Registrar of Companies all such returns and notices as are required of a public company in terms of the Companies Act 71 of 2008 (as amended) of South Africa, and that all such returns and notices are true, correct and up to date.



A Parboosing

Company secretary

10 February 2017

DIRECTORS' REPORT

for the year ended 31 December 2016

The directors have pleasure in presenting the annual financial statements of Kumba and the group for the year ended 31 December 2016.

NATURE OF BUSINESS

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

Kumba is a mining group of companies focusing on the exploration, extraction, beneficiation, marketing and sale and shipping of iron ore. Kumba produces iron ore in South Africa at Sishen and Kolomela mines in the Northern Cape province. Kumba also produced iron ore at Thabazimbi mine in the Limpopo province which ceased its mining activities in September 2015, while processing activities ceased on 31 March 2016.

The nature of the businesses of the group's subsidiaries, associates and joint ventures is set out in annexures 1 and 2 on pages 99 to 100.

CORPORATE GOVERNANCE

The group subscribes to the Code of Good Corporate Practices and Conduct as contained in the King III report on corporate governance. The Board has satisfied itself that Kumba has complied in all material aspects with the code as well as the JSE Listings Requirements throughout the year under review. The corporate governance report is set out on pages 78 to 89 of the Integrated Report 2016.

The Board will ensure that the principles and practices recommended by King IV are adopted when it becomes effective to ensure continued compliance is achieved.

FINANCIAL RESULTS

The financial statements on pages 34 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 2016. The financial statements have been prepared under the supervision of FT Kotzee, CA(SA), Chief financial officer.

Operating results for the year

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

Rand million	2016	Restated 2015	% increase
Revenue	40,767	36,138	13
Operating profit	15,315	2,644	479
Cash generated from operations (excluding mineral royalties paid)	18,232	14,196	28

The group's total revenue of R40.8 billion for the period increased by 13% from R36.1 billion in 2015, mainly as a result of the increase in average realised FOB iron ore prices (2016: US\$64/tonne; 2015: US\$53/tonne), and the weaker average Rand/US\$ exchange rate (2016: R14.69; 2015: R12.76). This was partially offset by 11% lower total sales volumes of 42.5 Mt (2015: 47.8 Mt). Capesize freight rates from Saldanha to China averaged \$6.81/tonne for the year, down 15%, resulting in R665 million lower freight revenue.

Operating expenses, excluding impairments, were 10% lower as a result of the stringent cash preservation measures implemented. Mining costs were down 17% in real terms from lower mining volumes, fuel prices and contractor rates. This was offset by a decrease in the capitalisation of deferred stripping costs.

Unit cash costs at Sishen mine were R296/tonne, 5% lower than the R311/tonne of 2015, mainly driven by the 38% decrease in waste mined. The lower mining volumes were partially offset by lower production volumes, lower deferred stripping and input cost pressures. Cost escalation was contained below inflation principally as a result of lower fuel prices.

Kolomela mine incurred unit cash costs of R201/tonne (2015: R178/tonne), a 13% increase. Higher mining volumes and lower deferred stripping were the main contributors. Cost escalation was contained well below inflation at 3% mainly as a result of lower diesel prices and cost of blasting material. This was partially offset by higher production.

Operating profit of R15.3 billion increased by 78% (2015: R8.6 billion (excluding the Sishen impairment)). Kumba's operating profit margin increased to 38% (2015: 24%), 41% from mining activities (2015: 27%). The weakening of the Rand/US\$ exchange rate and the rise in iron ore prices outlined previously impacted profitability.

The group's cash generated from operations was up 24% from R13.8 billion in 2015 to R17.2 billion. The cash was used to pay income tax of R3.4 billion (2015: R0.6 billion) and capital expenditure of R2.4 billion (2015: R6.8 billion) was incurred. At 31 December 2016, the group had a net cash position of R6.2 billion (2015: net debt position of R4.6 billion). The group's working capital position remains healthy, although impacted by an increase of R2.1 billion in trade and other receivables on the back of higher realised prices.

FINANCIAL POSITION

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

Rand million	2016	Restated 2015	% increase/ (decrease)
Property, plant and equipment	32,131	32,671	(2)
Working capital (excluding cash and cash equivalents and non-current inventories)	6,116	4,861	26
Net cash/(debt)	6,165	(4,604)	134
Net asset value per share (R)	86.47	59.99	44

Property, plant and equipment

Expansion capital expenditure of R856 million focused on the Dingleton relocation project and R1.2 billion on stay-in-business (SIB) activities (including heavy mining equipment and infrastructure) and R321 billion on deferred stripping. Capital expenditure (including deferred stripping) is expected to be in the range of R2.6 billion to R2.8 billion for 2017, and between R3.5 billion and R3.7 billion, excluding unapproved projects, for 2018.

Working capital

The group's working capital position has remained strong, and included an increase of R2.1 billion in trade and other receivables as a result of higher realised prices.

Net cash

At 31 December 2016, the group had a net cash position of R6.2 billion (2015: Net debt of R4.6 billion).

ACCOUNTING POLICIES

A number of new and amended accounting standards were effective for the first time for the financial year beginning on 1 January 2016. None had a material impact on the group.

SHARE CAPITAL

Authorised capital

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

SHARE MOVEMENTS

Rand million	2016	2015
Balance at beginning of year	(131)	(311)
Net movement in treasury shares under employee share incentive schemes	17	180
Purchase of treasury shares employee share incentive schemes	(180)	–
Shares issued to employees under employee share incentive schemes	197	180
Share capital and share premium	(114)	(131)

The group acquired 2,140,891 (2015: nil) of its own shares through purchases on the JSE during the year.

Unissued shares

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

DIRECTORS' REPORT CONTINUED

for the year ended 31 December 2016

DIVIDENDS

In line with the Board's policy of declaring excess cash, the declaration of a dividend is reviewed at each interim and annual reporting period, taking into account, among other things, the group's net funding position. The Board remains cognisant of the volatility in certain uncontrollable market factors, such as iron ore prices, which are expected to be under pressure from continued supply growth, as well as exchange rates and freight rates.

While the reinstatement of a dividend is a key priority for the group, the Board concluded that it would be prudent to remain ungeared over the short to medium term while the period of price volatility continues. Furthermore, in order to maintain balance sheet flexibility in the context of the Anglo American portfolio review, the Board has decided not to declare a final 2016 dividend, but will review this again during the course of 2017.

SUBSIDIARIES, JOINT ARRANGEMENTS AND ASSOCIATES

Full particulars of the group's investment in subsidiaries, associates and joint arrangements are set out in annexures 1 and 2 on pages 99 and 100.

EQUITY COMPENSATION PLANS

Refer to the detailed remuneration report on pages 21 to 30, note 22, 'Equity-settled share-based payment reserve', and annexure 3 of the group annual financial statements for a detailed discussion and analysis of movements in the group's various equity compensation plans available to executive directors and senior employees.

SEGMENT RESULTS

Refer to note 1 for a detailed segmental analysis of the group's operating results for the year ended and financial position as at 31 December 2016.

HOLDING COMPANY AND RELATED PARTIES

Anglo American plc is the group's ultimate holding company. The interest in the group is held through a 69.71% holding by Anglo South Africa Capital Proprietary Limited (2015: 69.71%).

The analysis of ordinary shareholders is given on pages 107 and 108.

EVENTS AFTER THE REPORTING DATE

Refer to note 32 for a detailed description of events after the reporting period for the year ended 31 December 2016. The directors are not aware of any other matter or circumstances arising since the end of the year and up to the date of this report, not otherwise dealt with in this report.

CONTINGENT LIABILITIES AND GUARANTEES

Contingent liabilities

1. Settlement agreement with SARS

The group has concluded an agreement with the South African Revenue Service (SARS) to settle a dispute relating to the assessments received for the years 2006 to 2010 inclusive, and the tax treatment of the relevant issues in the years 2011 to 2015, inclusive, for a full and final total settlement amount of R2.5 billion.

An amount of R1.5 billion had previously been provided for in the group's annual financial statements for the tax years up to 2015, and an additional R1.0 billion was accounted for in 2016 in respect of this settlement agreement. The settlement will be paid in full in the first quarter of 2017, with appropriate adjustments made for current advance payments held on account.

The 2016 tax charge has been computed on a basis that is consistent with the settlement agreement.

As a responsible corporate citizen, the group's policy is to be tax compliant in all jurisdictions in which we operate.

2. Municipal rates and taxes

As previously reported, rates and taxes levied by the municipality at Sishen since 1 June 2014 were significantly higher than previously levied. Subsequent to year-end, the group settled the rates and taxes matter with the municipality at Sishen. The settlement is effective immediately and property values and the quantum of the rates and taxes will be adjusted retrospectively to the date of the publication of the 2014 municipal valuation roll.

Guarantees

The group has issued financial guarantees in favour of the Department of Mineral Resources (DMR) in respect of its environmental rehabilitation and decommissioning obligations to the value of R2.8 billion (2015: R2.3 billion). Included in this amount are financial guarantees for the environmental rehabilitation and decommissioning obligations of the group in respect of Thabazimbi mine of R438 million (2015: R438 million). ArcelorMittal SA has guaranteed R429 million of this amount by means of bank guarantees issued in favour of SIOC.

As a result of the annual revision of closure costs a further shortfall of R311 million arose. Guarantees for the shortfall will be issued in due course. ArcelorMittal SA has guaranteed R300 million of this amount by means of bank guarantees issued in favour of SIOC.

REGULATORY UPDATE

21.4% undivided share of the Sishen mine mineral rights

In October 2016, the DMR granted the residual 21.4% undivided share of the mining right for the Sishen mine to Kumba's subsidiary, SIOC, following the completion of an internal appeal process, as prescribed by section 96 of the Minerals and Petroleum Resources Development Act (MPRDA).

As a result of the grant of the residual 21.4% undivided share, SIOC is now the sole and exclusive holder of the right to mine iron ore and quartzite at the Sishen mine. This residual mining right will be incorporated into the 78.6% Sishen mining right that SIOC successfully converted in 2009.

The consent to amend SIOC's mining right, by the inclusion of the residual 21.4% undivided share, is subject to various conditions. The conditions, where applicable, will ultimately form part of the conditions to the Sishen mining right. These include the requirement for the continuation of the existing Export Parity Price (EPP) based supply agreement between SIOC and ArcelorMittal SA in its role as a strategic South African steel producer, as well as SIOC's continued support of skills development, research and development and initiatives to enable preferential procurement.

COMPANY SECRETARY

The Company secretary of Kumba is A Parboosing. The contact details of the Company secretary are set out on page 109. Refer to page 88 of the Integrated Report 2016 for her abridged CV. Mrs Parboosing tendered her resignation on 23 February 2017. She has agreed to remain in the role until 30 June 2017.

DIRECTORS

The names of the directors in office during the year and at the date of this report are set out on pages 16 to 17 of the Integrated Report 2016. 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 21 to 30. Refer to page 83 of the Integrated Report 2016 for details of the directors who resigned or were appointed during the year.

PRESCRIBED OFFICERS

The names of the prescribed officers during the year and at the date of this report are set out on pages 18 to 19 of the Integrated Report 2016. The remuneration and fees of the prescribed officers are set out in the detailed remuneration report on pages 21 to 30. Although Timo Smit is employed by Kumba Singapore Pte, he is a prescribed officer of Kumba as a member of Exco, and as such, his remuneration is disclosed in the table on page 28.

DIRECTORS' REPORT CONTINUED

for the year ended 31 December 2016

AUDITORS

Deloitte & Touche was appointed as the auditor of Kumba and its subsidiaries from inception on 1 November 2006 and continued in office for the year ended 31 December 2016. At the annual general meeting on 11 May 2017, shareholders will be requested to reappoint Deloitte & Touche as auditor of Kumba for the 2017 financial year.

SPECIAL RESOLUTION

On 13 May 2016 the shareholders of Kumba resolved the following:

- (1) The Company and any of its subsidiaries may from time to time be authorised to acquire the Company's own shares subject to the articles of association of the Company, the provisions of the Companies Act (as amended) and the Listings Requirements of the JSE.
- (2) The Board of directors of the Company may from time to time, subject to compliance with the requirements of the Company's memorandum of incorporation, the Companies Act (as amended), and the Listings Requirements of the JSE, authorise the Company to grant financial assistance in terms of sections 44 and 45 of the Companies Act (as amended).
- (3) The Company is authorised to remunerate its non-executive directors for their services as directors and/or pay any fees related thereto provided that the aforementioned authority shall be valid until the twelfth annual general meeting of the Company in 2017.
- (4) The directors are hereby authorised by way of a general authority, to issue the authorised but unissued ordinary shares of one cent each in the capital of the Company for cash, as and when suitable opportunities arise, subject to the MoI of the Company, the Companies Act and certain other conditions.

GOING CONCERN STATEMENT

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

REPORT OF THE AUDIT COMMITTEE

for the year ended 31 December 2016

INTRODUCTION

The Audit Committee (the Committee) is pleased to present its report for the financial year ended 31 December 2016 as recommended by the King Code, the JSE Listings Requirements and the Companies Act. The Committee is constituted as a statutory committee of shareholders, as well as a committee of the Board.

The Committee has terms of reference in place, which regulate both its statutory duties and those assigned to it by the Board. The terms of reference were reviewed, updated and approved in November 2016, taking into account material changes to the JSE Listings Requirements during the year under review and ensuring that the principles of King IV were adequately entrenched therein.

ROLE AND RESPONSIBILITIES

The mandate of the Committee, which in certain instances operates in conjunction with the Risk Committee and the Social, Ethics and Transformation Committee, is as follows:

- Promoting and reporting upon the overall effectiveness of the Company's system of internal controls
- Overseeing the mandates of, and ensuring coordination between the activities of internal and external audit
- Satisfying the Board that material financial risks have been identified and are being effectively managed and monitored
- Assessing the impact of the general control environment on the statutory audit, and reporting to executive management any areas of perceived control weaknesses
- Reviewing legal and regulatory matters that could have a significant impact on the Company's financial statements
- Monitoring the integrity of the Company's integrated reporting process
- Monitoring compliance with the Company's business integrity policy and overseeing the management of ethics within the organisation
- Annually reviewing the expertise, appropriateness and experience of the finance function and the Chief financial officer
- Annually reviewing the Committee's terms of reference and making recommendations to the Board in terms of ensuring its continued effectiveness

COMPOSITION

The Audit Committee, appointed by the Board and approved by the shareholders in respect of the financial year ended 31 December 2016, comprised the following independent non-executive directors, all of whom have the requisite financial skills, business acumen and experience to fulfil the Committee's duties:

- ZBM Bassa (chairman)
- DD Mokgatle
- AJ Morgan
- LM Nyhonyha*

Brief biographies of the Committee members are available on pages 16 to 17 of the Integrated Report 2016. During the year under review, the members of the Committee were nominated by the Board for re-election and all the members, having availed themselves for re-election by the shareholders at the 2016 AGM, were re-elected accordingly.

* Mr LM Nyhonyha resigned from the Company with effect from 31 December 2016. Mr F Titi was appointed to the Committee on 7 February 2017, in replacement of Mr Nyhonyha.

ATTENDEES AT COMMITTEE MEETINGS

In addition to the Committee members, the Chief executive officer, Chief financial officer, Risk manager, Compliance officer and heads of internal audit and external audit attend meetings of the Committee by invitation.

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

REPORT OF THE AUDIT COMMITTEE CONTINUED

for the year ended 31 December 2016

FREQUENCY AND ATTENDANCE OF COMMITTEE MEMBERS

During the year under review the Committee met five times. Special meetings were held to focus on material issues that required specific deliberation. Attendance at meetings held during the year is presented in the following table.

Member	02/03/16	⊕ 10/3/2016	05/05/16	19/07/2016	02/12/16	Number of meetings: 5
ZBM Bassa (Chairman)	✓	✓	✓	✓	✓	5/5
DD Mokgatle	✓	✓	✓	✓	✓	5/5
LM Nyhonyha	✓	✓	✓	✓	A	4/5
AJ Morgan	✓	✓	✓	✓	✓	5/5

✓ Indicates attendance

A Indicates absence with an apology

⊕ Special meeting to sign-off 2015 reporting suite

DISCHARGE OF DUTIES FOR THE YEAR UNDER REVIEW

The Committee has effectively discharged the following of its duties during the year under review:

Financial statements and accounting practices

The Committee reviewed the accounting policies and the annual financial statements of the Company for the year ended 31 December 2016, and ensured that these were compliant with the provisions of the Companies Act, IFRS and the JSE Listings Requirements. This review culminated in a recommendation to the Board for the adoption of the financial statements.

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

The Committee reviewed the group's significant accounting matters and recommended the approval thereof to the Board which include:

- Impairment review of the cash-generating units as well as individual items of property, plant and equipment
- Provision for environmental rehabilitation and decommissioning
- Thabazimbi lease termination and disposal
- Taxation matters

The Committee reviewed the following key audit matters included in the external audit report on pages 31 to 33:

- Impairment considerations
- Accounting for key taxation matters
 - Tax dispute with SARS regarding the group's overseas sales and marketing companies
 - Calculation of mineral royalties

The Committee also reviewed and recommended the debt facilities and compliance with debt covenants in the context of the group's funding requirements, for approval to the Board.

External auditors

The Committee has considered and satisfied itself with the independence and objectivity of Deloitte & Touche and Mr Sebastian Carter in their respective capacities as the appointed external audit firm and lead audit partner. The Committee also ensured that the scope of non-audit services rendered did not impair their independence.

Further, the Committee satisfied itself that the external auditor and lead audit partner are both accredited on the JSE's list of auditors and advisers. The Committee therefore recommended the reappointment of the external auditors and the reappointment of the designated auditor at the 2016 annual general meeting.

The Committee also approved the non-audit-related services performed by the external auditor during the year under review and determined the external auditor's terms of engagement and fees for 2016.

Internal audit

The group's internal audit function is fulfilled by Anglo American Business Assurance Services (ABAS) and provides the Board with positive assurance on the key areas of the group's internal financial controls.

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

- Objectively assuring effectiveness of the risk assurance and the internal control frameworks
- Analysing and assessing business processes and associated controls
- Reporting audit findings and recommendations to management and the Audit Committee
- Providing a written report on the assessment of the internal control environment
- Providing written, positive assurance on internal financial controls

The Committee considered the effectiveness of the internal audit function and monitored adherence to the annual internal audit plan.

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

Internal controls

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

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

Combined assurance and risk management oversight

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

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

Integrated reporting

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

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

The Committee therefore recommended the integrated report and the sustainability report for 2016 for approval to the Board. The Board will approve the reports which will be available and open for discussion at the 2017 annual general meeting.

REPORT OF THE AUDIT COMMITTEE CONTINUED

for the year ended 31 December 2016

Solvency and liquidity review

The Committee is satisfied that the Board has adequately performed solvency and liquidity tests on the Company in terms of section 46 of the Companies Act, as and when required during the year under review.

Going concern status

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

Finance director and finance function

The Committee reviewed the performance of the Chief financial officer, Mr FT Kotzee, and was satisfied that he has the necessary expertise and experience to fulfil the role and that he had performed appropriately during the year under review.

Further, the Committee considered, and has satisfied itself of the appropriateness of the expertise and experience of the finance function and adequacy of resources employed in this function.

Legal and regulatory matters

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

Business integrity and ethics

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

Ore Reserves and Mineral Resources

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

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



Ms ZBM Bassa

Chairman of the Audit Committee

10 February 2017

REMUNERATION REPORT

KEY REMUNERATION DEVELOPMENTS AND ACTIVITIES OF THE HUMAN RESOURCES AND REMUNERATION COMMITTEE (REMCO)

The following are some of the key developments and activities of Remco during 2016:

Changes to the membership of Remco

- Litha Nyhonyha, Independent non-executive director and member of Remco, resigned with effect from 31 December 2016. Litha served on the Committee since July 2015.

Key management changes during 2016

- Mr Norman Mbazima decided to step down as Chief executive officer of Kumba Iron Ore Limited after four years to focus on his role as Deputy Chairman of Anglo American South Africa, with effect from 31 August 2016.
- Mr Themba Mkhwanazi has been appointed as Chief executive officer with effect from 1 September 2016, following Norman Mbazima's decision to step down.
- Mr Billy Mawasha, the Executive head of technical services and projects, was appointed as acting Executive head of operations with effect from 1 October 2015 until 31 January 2016. Mr Mawasha was subsequently transferred to the position of Executive head of operations and integration with effect from 1 February 2016.
- Mr Glen Mc Gavigan was appointed as Executive head of technical services and projects with effect from 1 August 2016. Mr Mc Gavigan also serves on the Executive Committee of the Company, and has been appointed as a prescribed officer of Kumba.
- Subsequent to year-end
 - Mr Frikkie Kotzee decided to step down as Chief financial officer of Kumba after five years, with effect from 11 May 2017
 - Mr Alex Mgzah decided to step down as Executive head of safety and sustainable development after six years, with effect from 28 February 2017
 - Ms Avanthi Parboosing decided to step down as Company secretary after three years, with effect from 30 June 2017.

The iron ore market has continued to be volatile and consequently the Company's share price has had a significant negative impact on the Employee Share Ownership Plan (Envision). As a result of the fall in the Kumba share price, the Envision unit value also fell to zero since March 2015. Envision phase II came to an end in November 2016 and has been unwound. At inception of Envision phase II, the Envision Trust took on a loan from SIOC to purchase SIOC shares. The outstanding loan amount was more than the value of Envision shares at unwinding, effectively meaning that the Envision unit value was negative and there was no capital payout to participants. The Committee also took the following key decisions during 2016:

- Due to tough operating conditions, the Committee approved a 2016 salary freeze for executives and employees on management categories as a cost curtailment initiative.
- Reviewed and approved the 2015 performance assessments and performance incentive payments for the Chief executive and prescribed officers.
- Reviewed and approved the 2016 share allocation awards under the Deferred Bonus Arrangement (DBA) and long-term incentive plan (LTIP) for the Chief executive, and senior management. Due to the low share price at the time of allocation, the number of shares allocated was higher than in the previous years. The volume of outstanding shares is less than 1% of issued capital. The approved aggregate limit for the DBA and LTIP share schemes is 10% of the issued share capital and remains balanced as a result of low past awards. Approved the 2016 performance conditions for LTIP.
- Approved 2016 performance contracts of the Chief executive, the Chief financial officer as well as prescribed officers.
- Considered recommendations in relation to non-executive director remuneration for final recommendation by the Board to shareholders; The shareholders, on recommendation from Remco and the Board, approved a freeze to non-executive director remuneration.
- Reviewed and approved the emergency and succession plans for executive directors and other senior executives of the Company.
- Reviewed the remuneration disclosure in the integrated report to ensure that it was accurate and transparent and provided sufficient forward looking information for the shareholders to assess the remuneration policy and for passing a resolution in terms of section 66(9) of the Companies Act, 2008.
- Oversaw and guided the Thabazimbi closure, Sishen mine and Kolomela mine restructuring, specifically in relation to all human resource-related matters.
- Approved restructuring of executive packages to comply with the newly legislated retirement reforms at no extra cost to the Company.
- Noted the unwinding of Envision phase II and approved the related communication plan. There was no capital payout to participants as the outstanding loan amount was more than the value of Envision shares at unwinding, effectively meaning that the Envision unit value was negative.

OBJECTIVES OF THE REPORT

This report covers the following aspects of remuneration in Kumba:

Part one

- Roles, responsibilities and constitution of Remco.
- An overview of key elements of remuneration for all employees, with detailed explanations for executive directors, prescribed officers and non-executive directors.
- An overview of reward policy and practices within Kumba.

REMUNERATION REPORT CONTINUED

Part two

- Details of remuneration outcomes and activities in 2016, namely remuneration paid to directors and executive management during 2016, including details of incentives awarded during the year and how they relate to performance.

PART ONE: REMUNERATION PHILOSOPHY AND POLICY

REMCO

Role of Remco and terms of reference

The Remco assists the Board with remuneration policies and programmes in line with Company strategy and objectives, with a specific focus on executive and prescribed officer remuneration. Remco's governance activities include:

- Approving:
 - Annual performance targets for both the Chief executive officer and the executive management team
 - Performance conditions and measures, objectives and targets for all performance-related rewards, fixed, variable and long term
 - Reward policies and programmes
 - Overall cost of remuneration increases awarded to employees, including the costs of short- and long-term incentives.
- Reviewing and making recommendations to the Board on:
 - Evaluation of the performance of executive directors against targets and business objectives
 - Remuneration of executive directors and executive management, including short-term incentive payments and long-term share awards, directly linked to the achievement of Company and individual performance targets.

The full Remco terms of reference are available on Kumba's website: www.angloamericankumba.com/investors/corporate-governance.aspx.

Membership of Remco

The committee comprises the following independent non-executive directors:

- AJ Morgan (Chairman)
- F Titi
- ZBM Bassa

Frequency and attendance of committee meetings

In addition to committee members, the Chief executive, Executive head of human resources and the Anglo American plc Group head of reward attend meetings of the committee. Directors are not involved in any decisions regarding their own remuneration and are recused from such discussions and deliberations.

Remco met five times during the year and attendance is presented in the table on page 86 of the Integrated Report for 2016. Abridged biographies for the members of Remco are available on pages 16 to 17 of the Integrated Report for 2016 as well as on the Company website at: www.angloamericankumba.com/about-us/leadership-teams/our-board.aspx.

REWARD APPROACH

Our remuneration philosophy underpins our strategy

Our reward philosophy forms an integral part of our employment ethos and supports Company strategy. Our reward strategy aims to:

- Motivate and engage employees to increase their level of commitment resulting in high levels of performance of individuals and teams
- Facilitate the attraction and retention of top talent and those employees with critical skills
- Maintain Kumba as an employer of choice
- Target the market median in respect of fixed pay, with variable performance-related pay, both short and long term, included in the total reward offering to ensure market competitiveness
- Ensure the fair, equitable and consistent application of our remuneration principles and policies
- Allow employees to share in the performance of the business.

The Remco has the overarching responsibility to ensure that the principles of accountability, transparency, sustainability and good governance are enacted in all remuneration-related matters. This includes the critical link between executive remuneration and performance against strategy, with the ultimate aim of creating shareholder value.

ELEMENTS OF REMUNERATION

The key elements of our remuneration framework and structure which guides payments to all employees are shown on the following pages, with a focus on executive directors and prescribed officers.

	STRATEGIC INTENT	REMUNERATION ELEMENTS	PAY DELIVERY	ELIGIBILITY
Base salary	<ul style="list-style-type: none"> Attract people with the necessary competencies (knowledge, skill and attitude) to add value to our business Retain competent, high-performing employees who are engaged and demonstrate company values Ensure that pay is competitive and market related Comply with legislative provisions and negotiated contractual commitments Support high-performing individuals and teams by aligning reward with performance Reinforce and enhance the principle that employees are key assets of our Company 	Salary	Monthly	All employees
		Benefits	<ul style="list-style-type: none"> Employer contribution to selected retirement funds Subsidised medical aid Life and disability insurance Housing allowances and five-year mortgage subsidy plan Study assistance for formal education 	
			<ul style="list-style-type: none"> Other allowances 	Job specific Scarce skills Transformation
Performance incentives	<ul style="list-style-type: none"> Aim to align achievement of production, safety and cost targets at operational level Encourage the achievement of stretch targets at Company/business unit/functional/individual level Align management and shareholder interest Long-term retention 	Performance bonus	Cash paid on monthly, quarterly or bi-annual basis, depending on circumstances at each site	Bargaining unit employees
			The incentive is delivered in two parts: (i) Annual cash incentive (ii) Deferred cash bonus with a holding period of one year before vesting	Entry-level management (Band 6/12)
			The incentive is delivered in two parts: (i) Annual cash incentive (ii) Deferred bonus shares with a holding period of three years (five years for the Chief executive) before vesting	Senior management and above
Long-term incentives	<ul style="list-style-type: none"> Retention of skills and direct alignment with shareholder interest Reward employees for contribution to long-term, sustainable Company performance Attract and retain key employees Long-term retention 	Long-term incentive plan (LTIP)	Delivered in conditional shares with specific performance conditions attached	Executive directors
		Forfeitable shares	Delivered in forfeitable shares with a holding period of three years before vesting	Prescribed officers and selected senior managers, excluding executive directors
		Participation in employee share ownership plan (Envision)	Units awarded in terms of the rules of the ownership plan	Junior management and below that do not participate in any of the other long-term incentives

REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

Executive directors and prescribed officers receive remuneration appropriate to their scope of responsibility and contribution to operating and financial performance, taking into account industry norms, external market and country benchmarks.

The remuneration of executive directors and prescribed officers consists of fixed and variable components that are designed to ensure a substantial portion of the remuneration package is linked to the achievement of the Company's strategic objectives, thereby aligning incentives awarded to the creation of sustainable shareholder value.

Fixed remuneration

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

The Company contributes 12% of pensionable salary to approved retirement funds. Medical aid is subsidised at 60% of the contribution to a maximum amount determined by market comparisons. Risk insurance benefits include life cover and death-in-service benefits, subject to the rules of the approved Kumba retirement funds.

A portion of the approved fixed package and the annual performance incentive elements of the former Chief executive (N Mbazima) and the Chief financial officer is determined and paid in terms of separate employment agreements concluded between Kumba International Trading SARL (KITSA) and the respective executive director for services rendered to KITSA outside South Africa. The remuneration paid by KITSA is calculated according to the time spent by the executive director on services performed offshore. These figures are included in the emoluments table on page 28 of this report.

Variable remuneration

Variable remuneration consists of two elements: an annual performance incentive; and long-term incentive plans that run over a three-year performance period (and an additional two-year holding period in the case of the Chief executive).

ANNUAL PERFORMANCE INCENTIVE	
Purpose	The incentive is designed to reward and motivate the achievement of agreed Company financial, strategic and operational objectives, linked to key performance areas within cited employees' respective portfolios. Through the deferred bonus arrangement, long-term sustained performance is encouraged.
Eligible participants	Executive directors, prescribed officers and management employees.
Elements	<p>There are two elements to the incentive:</p> <ul style="list-style-type: none"> ■ An annual cash incentive, linked to performance during the financial year, payable at the end of March of the year following the end of the financial year; and ■ A deferred bonus arrangement in which a proportion of the cash incentive is matched and awarded as: <ol style="list-style-type: none"> (i) 140% (150% for the Chief executive) of the cash incentive in deferred shares, which is awarded after the end of the relevant financial year. These bonus shares are linked to performance during the financial year in the same manner as the annual cash incentive, and are subject to a three to five-year (only for the Chief executive) holding period before vesting, during which it remains restricted. This is applicable to executive directors, prescribed officers and senior management. (ii) 70% of the cash incentive in deferred cash, which is awarded after the end of the relevant financial year. The deferred cash is linked to performance during the financial year in the same manner as the annual cash incentive, and is subject to a one-year holding period before vesting, during which it remains restricted. This is applicable to entry level management. <p>The deferred bonus shares as well as deferred cash will be forfeited if the participant leaves employment during the restricted period (except if the participant is a 'good leaver' under the DBA scheme rules). Participants earn dividends on the deferred bonus shares.</p>

ANNUAL PERFORMANCE INCENTIVE *continued*

Performance measures	<p>Managers within Kumba are measured on business-specific strategic value drivers aligned to operational and/or mine-specific strategic priorities as approved by the Board. In 2016 emphasis was placed on the following:</p> <ul style="list-style-type: none"> ■ Leading and lagging Safety indicators including safety leadership ■ Total production and compliance to mine plan ■ Cost optimisation (unit cost, Sishen and Kolomela mines) ■ Financial performance – EBIT, operating free cash flow (Kumba Iron Ore), earnings per share (as per Anglo American plc)
Maximum value of annual performance incentive	<p>The values of the annual performance incentive for executive directors and prescribed officers are:</p> <p>Chief executive The Chief executive's annual incentive is determined by measuring performance against overall Company targets (75%) and specific, individual key performance measures (25%) approved by the Board. The cash element of the incentive is capped at 70% of basic employment cost (BEC).</p> <p>Chief financial officer The Chief financial officer participates in the Anglo American plc group performance management standard. This is based on a maximum on-target cash bonus percentage of 30%, an individual performance modifier (IPM) and a business multiplier (BM) that is determined at the end of the year, taking into account Kumba business performance against the targets set for the year.</p> <p>Prescribed officers As with the case of the Chief financial officer, prescribed officers participate in the Anglo American plc group performance management standard. This is based on a maximum on-target cash bonus percentage of 25% or 30% of BEC, an IPM and a BM that is determined at the end of the year taking into account Kumba business performance against the targets set for the year.</p>
Business multiplier (BM)	The BM is determined and approved by the Anglo American plc group management committee (GMC) at the end of the year, taking into account Kumba business performance against the targets set for the year. The business multiplier has ranged between 0.5 and 1.3 over the past years
Individual performance modifier (IPM)	An IPM is based on individual performance ratings and is determined at business unit level and approved by the GMC. It ranges from 0 to 2.0.
Maximum value of deferred bonus shares award	The maximum face value of the deferred bonus shares award is 150% for the Chief executive and 140% of the annual performance incentive for prescribed officers.
Changes in 2016	There were no changes in 2016

KEY PERFORMANCE FOCUS AREAS FOR 2017

Key results area	Measure
Safety	Leading and lagging indicators including safety leadership, fatalities, LTIFR, TRCFR and operational risk management.
Production	<ul style="list-style-type: none"> ■ Total production ■ Compliance to mine plan
Cost	<ul style="list-style-type: none"> ■ Unit costs ■ Additional agreed initiatives
Financial	<ul style="list-style-type: none"> ■ EBIT ■ Operating free cash flow (Anglo American plc) ■ Earnings per share (Anglo American plc)

REMUNERATION REPORT CONTINUED

LONG-TERM INCENTIVES

LONG-TERM INCENTIVE PLAN (LTIP)														
Description	The LTIP consists of conditional awards of shares vesting after three years, subject to the achievement of stretching performance conditions. Full voting and dividend rights will only accrue from the vesting date.													
Eligible participants	Executive directors													
Maximum value of the award	The maximum annual face value of the LTIP award is 150% of base salary for the Chief executive and 100% of base salary for the Chief financial officer.													
2016 performance measures	Two performance conditions, measured over a three-year performance period, apply to each award:													
	Performance indicator	Weighting	Threshold target	Stretch target										
	Attributable return on capital employed (ROCE) achieved	50%	3%	13%										
	Total shareholder return (TSR) achieved	50%	Median TSR ranking	Upper quartile TSR ranking										
	TSR is further split into a 25% weighted JSE/FTSE mining index (this index is compiled by the FTSE but consists of JSE mining companies only) and 25% global iron ore peer group. The global iron ore companies comparator group comprises Fortescue Metals (Australia), Ferrexpo (Great Britain), Atlas Iron (Australia), Mount Gibson (Australia), Vale (Brazil), China Vanadium (China), Rio Tinto Ltd (Australia).													
	<p>VESTING SCHEDULE</p> <table border="1"> <caption>VESTING SCHEDULE</caption> <thead> <tr> <th>Performance Level</th> <th>Vesting Percentage (%)</th> </tr> </thead> <tbody> <tr> <td>Below threshold</td> <td>0</td> </tr> <tr> <td>Threshold</td> <td>30</td> </tr> <tr> <td>Maximum</td> <td>100</td> </tr> <tr> <td>Above maximum</td> <td>100</td> </tr> </tbody> </table>				Performance Level	Vesting Percentage (%)	Below threshold	0	Threshold	30	Maximum	100	Above maximum	100
Performance Level	Vesting Percentage (%)													
Below threshold	0													
Threshold	30													
Maximum	100													
Above maximum	100													
	Targets are approved by Remco for each allocation and no retesting of performance conditions is allowed. Shares that do not vest after three years in terms of the performance conditions will lapse.													
Changes in 2016	The threshold and stretched targets on the ROCE achieved performance indicator, of respectively 3% and 13%, was agreed by Remco in 2016. The targets were previously 12% and 18% for threshold and stretch respectively. The reduction in the threshold and stretch ROCE targets for 2016 was a result of a much lower ROCE realisation potential anticipated over the performance period (2016 to 2018), based on the slump in the iron ore market and prolonged negative outlook during the time of award. The comparator group was changed by removing Cliffs Natural Resources (USA) and MMX Mineracao (Brazil) due to these companies no longer being suitable comparators on the TSR condition for the global iron ore peer group. However, seven global peer companies still remain in the comparator group which is a sufficient number for the calculation of the median and upper quartile of the TSR condition.													
Company limits	The aggregate limit for the DBA and LTIP is 10% of the issued share capital. Shares are purchased in the market and not issued for purposes of settlement of the DBA or LTIP. The current level of outstanding shares is less than 1% of total issued share capital.													

Executive directors' and prescribed officers' contracts of employment

Executive directors and prescribed officers are not employed on fixed-term contracts but have standard employment contracts with notice periods of up to 12 months.

There are no changes of control provisions or any provisions relating to payment on termination of employment.

External Board and statutory appointments of executive directors and prescribed officers

External appointments are subject to approval by the Board and are governed by the business integrity policy.

NON-EXECUTIVE DIRECTORS' FEES

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

Remco recommends the level of fees payable to non-executive directors to the Board for approval by the shareholders. Non-executive directors' remuneration is determined by benchmarking using market data, including a survey of the top 40 companies listed on the JSE, by an independent external service provider. Fees are not dependent upon meeting attendance, and no other supplementary fees are payable.

Annual fees payable to non-executive directors were approved by shareholders at the AGM on 13 May 2016. No increases in fees were awarded for 2016. The fees are as follows:

Capacity	2016/2017 fees per annum (Rand)	
	Chairman	Member
Board of directors	1,242,150	209,265
Audit Committee	297,300	138,915
Risk Committee	297,300	138,915
Social, Ethics and Transformation Committee	297,300	138,915
Human Resources and Remuneration Committee	297,300	138,915
Nominations and Governance Committee	N/A*	138,915
Special Board sub-committee	N/A*	138,915

*The Nominations and Governance Committee and special Board sub-committees are chaired by the Chairman of the Board and there are no additional fees paid for this responsibility.

REMUNERATION REPORT CONTINUED

2016 EMOLUMENTS (AUDITED)

The table below provides an analysis of the emoluments paid to executive and non-executive directors, as well as prescribed officers.

R'000	Base salary	Benefits (retirement and medical aid)	Cash bonus based on performance (paid March 2017)	Face value of BSP shares awarded in respect of performance (awarded March 2017)	Directors' fees	Committee fees	LTIP – value earned in respect of performance period 2014-2016 (vesting 2017)	Total emoluments	
								2016	2015
Executive directors									
NB Mbazima ¹	7,067	662	3,639	–			–	11,368	21,014
TM Mkhwanazi ²	2,108	85	1,102	1,543			491	5,329	–
FT Kotzee ³	4,202	286	5,038	–			–	9,526	8,388
Sub-total	13,377	1,033	9,779	1,543			491	26,223	29,402
Non-executive directors									
F Titi					1,242	–		1,242	1,227
ZBM Bassa					209	661		870	757
N Dlamini ⁶					52	–		52	–
GS Gouws ⁴					–	–		–	116
KT Kweyama ⁵					–	–		–	50
DD Mokgatle					209	798		1,007	893
AJ Morgan					209	947		1,156	1,030
LM Nyhonyha					209	661		870	757
AM O'Neill ⁷					–	–		–	207
BP Sonjica					209	278		487	482
AH Sangqu					209	278		487	244
N Viljoen ⁸					209	–		209	–
Sub-total					2,757	3,623		6,380	5,763
Prescribed officers									
AC Loots ⁹									7,104
B Mawasha ¹⁰	4,114	453	1,768	2,476				8,811	7,624
GM Mc Gavigan ¹¹	2,153	255	562	786				3,756	901
Y Mfolo	2,096	265	810	1,134				4,305	3,963
LLA Mgadzah ¹²	1,936	258	1,032	–				3,226	3,021
A Parboosing ¹³	1,897	219	1,895	–				4,011	3,463
TS Smit ¹⁴	5,940	2,650	2,630	3,682			2,398	17,300	6,890
SV Tyobeka	2,253	270	938	1,313				4,774	4,362
Sub-total	20,389	4,370	9,635	9,391			2,398	46,183	37,328
Total	33,766	5,403	19,414	10,934	2,757	3,623	2,889	78,786	72,493

¹ Resigned 31 August 2016. Emoluments include a base salary of R612,120 (EUR42,230) and retirement benefits of R153,030 (EUR10,558) (25% of base salary) paid by KITSA in respect of services rendered offshore during 2016.

² Emoluments are from 1 September 2016. Cash bonus and LTIP value earned relates to an award made while the Chief executive was at Anglo Thermal Coal.

³ Emoluments include base salary of R1,119,731 (EUR77,250) paid by KITSA in respect of services rendered offshore during 2016. Cash bonus includes cash payment in lieu of 2016 BSP share award.

⁴ Resigned 8 May 2015.

⁵ Resigned 29 April 2015.

⁶ Appointed 1 November 2016.

⁷ Resigned 5 February 2016.

⁸ Appointed 8 February 2016.

⁹ Resigned 30 September 2015.

¹⁰ Emoluments include acting allowance in base salary for additional responsibilities as Acting head of operations for January 2016.

¹¹ Emoluments include acting allowance in base salary for additional responsibilities as Acting head of technical services and projects until July 2016.

¹² Cash bonus includes cash payment in lieu of 2016 BSP share award.

¹³ Cash bonus includes cash payment in lieu of 2016 BSP share award.

¹⁴ TS Smit is employed by Kumba Singapore Pte and emoluments are paid in Singapore Dollar. Included in benefits are cost of living allowances. The LTIP value and BSP shares awarded is settled in Anglo American plc shares.

INTERESTS OF EXECUTIVE DIRECTORS AND THE PRESCRIBED OFFICERS (AUDITED)

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

Capacity and name	Number of awards at 1 January 2016	Granted awards			Vested awards			Outstanding awards		
		Granted during 2016	Date of grant	Market value on grant date R'000	Number of shares vested during 2016	Vesting date	Notional value at date of vesting R'000	Number of awards at 31 December 2016	Notional value of outstanding awards R'000	Earliest date of vesting of outstanding awards
Executive directors										
Bonus Share Plan										
NB Mbazima	42,477	143,520	01-Apr-16	11,641	7,488	01-Mar-16	599	178,509	28,383	01-Mar-17
FT Kotzee	16,674	48,555	01-Apr-16	3,938	742	16-Feb-16	43	62,670	9,965	01-Mar-17
					1,817	01-Mar-16	145			
LTIP										
NB Mbazima ^{1,4}	105,805	313,980	01-Apr-16	25,467	9,937	01-Mar-16	795	399,912	48,319	01-Mar-17
TM Mkhwanazi ²	-	23,774	15-Sep-16	2,853	-		-	23,774	3,659	01-Mar-19
FT Kotzee ^{3,5}	32,662	94,918	01-Apr-16	7,699	3,001	01-Mar-16	240	121,578	14,607	01-Mar-17
Sub-total	197,618	624,747		51,598	22,985		1,822	786,443	104,933	
Prescribed officers										
Bonus Share Plan										
VF Malie	5,526				1,949	01-Mar-16	156	3,577	569	01-Mar-17
B Mawasha	30,662	89,057	01-Apr-16	7,223	3,018	16-Feb-16	175	113,683	18,076	01-Mar-17
					3,018	01-Mar-16	241			
GM Mc Gavigan	12,673	37,376	01-Apr-16	3,032	2,364	01-Mar-16	189	47,685	7,582	01-Mar-17
Y Mfolo	16,090	41,759	01-Apr-16	3,387	2,265	16-Feb-16	131	52,605	8,364	01-Mar-17
					2,979	01-Mar-16	238			
LLA Mgadzah	14,516	29,279	01-Apr-16	2,375	2,873	16-Feb-16	167	38,244	6,081	01-Mar-17
					2,678	01-Mar-16	214			
A Parboosing	5,293	18,688	01-Apr-16	1,516	815	16-Feb-16	47	21,944	3,489	01-Mar-17
					1,222	01-Mar-16	98			
SV Tyobeka	18,993	46,487	01-Apr-16	3,771	3,309	16-Feb-16	192	58,968	9,376	01-Mar-17
					3,203	01-Mar-16	256			
Sub-total	103,753	262,646		21,304	29,693		2,104	336,706	53,537	
Total	301,371	887,393		72,902	52,678		3,926	1,123,149	158,469	

¹ Number of shares reflect full number due for vesting subject to performance conditions being met. As 50% of the performance conditions were met, only 9,937 shares realised.

² Share award allocated to supplement total emoluments when transferred from Anglo Coal.

³ Number of shares reflect full number due for vesting subject to performance conditions being met. As 50% of the performance conditions were met, only 3,001 shares realised.

⁴ Forfeited awards: A total of 9,937 shares with a notional value of R794,920 were forfeited on 1 March 2016.

⁵ Forfeited awards: A total of 3,001 shares with a notional value of R240,080 were forfeited on 1 March 2016.

REMUNERATION REPORT CONTINUED

DIRECTORS' BENEFICIAL INTEREST IN KUMBA

The aggregate beneficial interest in Kumba at 31 December 2016 of the directors of the Company and their immediate families (none of which has a holding greater than 1%) in the issued shares of the Company are detailed below. There have been no material changes to the shareholding since 2016 and the date of approval of the annual financial statements.

Capacity and name	2016			2015		
	Number of shares	Long-term incentive scheme shares ¹	Total beneficial interest	Number of shares	Long-term incentive scheme shares ¹	Total beneficial interest
Executive directors						
NB Mbazima ¹	–	578,421	578,421	–	148,282	148,282
TM Mkhwanazi ¹	–	23,774	23,774	–	–	–
FT Kotzee ¹	–	184,248	184,248	–	49,336	49,336
Sub-total	–	786,443	786,443	–	197,618	197,618
Non-executive directors						
DD Mokgatle ²	428	–	428	428	–	428
Sub-total	428	–	428	428	–	428
Total	428	786,443	786,871	428	197,618	198,046

¹ Granted under the Bonus Share Plan as well as the Long-term Incentive Plan and disclosed in the tables above.

² Total indirect interest held by spouse.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF KUMBA IRON ORE LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Kumba Iron Ore Limited and its subsidiaries (the group) set out on pages 34 to 106, which comprise the consolidated and separate balance sheet as at 31 December 2016, and the consolidated and separate income statement, the consolidated statement of comprehensive income, the consolidated and separate statement of changes in equity and the consolidated and separate cash flow statement for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Kumba Iron Ore Limited as at 31 December 2016, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

Basis for opinion

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

Key audit matters

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

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
<p>Impairment considerations</p> <p>In the prior year, the group recognised an impairment loss with respect to the property, plant and equipment of Sishen mine.</p> <p>While market conditions have improved in the current year, it was considered appropriate to reassess the impairment charge recognised with regard to Sishen mine at 31 December 2016.</p> <p>The impairment calculation prepared by the directors is considered to be a key audit matter due to the significant judgement and estimates used in the impairment calculation.</p> <p>Refer to note 2 in the consolidated financial statements which details the key assumptions applied by the directors in preparing the value-in-use impairment calculation.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> ■ A review of the impairment indicator assessment prepared by the directors at year-end; ■ A detailed review of the key assumptions and inputs used in the impairment calculation. We challenged the key assumptions used by the directors including the discount rate, iron ore prices, exchange rates, production forecasts, operating cost and capital expenditure forecasts. Consideration was given to third party commodity price and exchange rate forecasts, actual operating results achieved in the current year versus forecasts and various sensitivity analyses; and ■ We considered the adequacy of the group's disclosures with respect to the assumptions used in the impairment assessment as detailed in note 2 to the consolidated financial statements. We consider the disclosure in the consolidated financial statements to be appropriate. <p>Based on the audit procedures performed, we consider there to be a degree of conservatism in the directors' forecasting process with regard to the "uncontrollable assumptions", namely iron ore prices and exchange rates which is considered appropriate in view of the current volatility in global commodity markets. The "controllable assumptions" such as production, operating cost and capital expenditure forecasts appear reasonable when comparing the budget and actual results for the current year and taking into account current mine plans. On this basis, we concur with the directors' decision at year-end not to raise a further impairment charge or reverse the existing impairment recognised with regard to the Sishen mine.</p> <p>In addition to the Sishen mine cash-generating unit assessment, detailed consideration was given to the nature and expected use of idle equipment located at Sishen mine in terms of the current mine plans. We are comfortable that the accounting treatment of these assets is appropriate at 31 December 2016.</p>

INDEPENDENT AUDITOR'S REPORT CONTINUED

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Accounting for key taxation matters	
<p>Tax dispute with SARS regarding the group's overseas sales and marketing companies</p> <p>Further to a long-standing dispute between the South African Revenue Service (SARS) and Sishen Iron Ore Company (Pty) Ltd (SIOC), regarding the taxation of transactions with the group's overseas marketing companies, SARS issued an assessment during 2016 for the 2006 to 2010 tax years and a letter of findings for the 2011 tax year.</p>	<p>Tax dispute with SARS regarding the group's overseas sales and marketing companies</p> <p>As detailed in note 31 to the consolidated financial statements, a final settlement agreement was reached between SIOC and SARS subsequent to the year-end which has resulted in a full and final settlement of the tax dispute with SARS for the years 2006 to 2015. This liability has been appropriately recognised in the consolidated financial statements for the year ended 31 December 2016.</p> <p>To reduce the risk of similar SARS challenges in the future regarding the taxation of transactions with the group's overseas marketing companies, the directors have accounted for certain adjustments in the computation of the taxation charge for the current year. The basis on which the directors have determined these adjustments for the year ended 31 December 2016 is considered to be materially appropriate based on the professional advice of independent experts.</p>
<p>Calculation of mineral royalties</p> <p>The mineral royalty calculations contain specific assumptions which are based on the directors' significant judgement. We consider the mineral royalty calculation to be a key audit matter due to the significant directors' judgement applied in the calculation and the quantum of the mineral royalty amount.</p>	<p>Calculation of mineral royalties</p> <p>In terms of the Mineral and Petroleum Resources Royalty Act and the Mineral and Petroleum Resources Royalty Administration Act, the specified condition for iron ore used to calculate the mineral royalty payable is deemed to relate to iron ore extracted at a 61.5% Fe content. As a result, the directors are required to make certain judgements and estimates in determining the gross sales value of the ore extracted at its mines for the purposes of determining the royalty payable in terms of the above mentioned Acts.</p> <p>We have reviewed the directors' calculation of the gross sales value, and we consider the calculation and the assumptions applied to be materially reasonable for the determination of royalty taxes for the year ended 31 December 2016.</p>

Other information

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

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

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

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

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

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

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

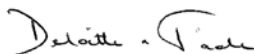
We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in *Government Gazette* Number 39475 dated 4 December 2016, we report that Deloitte & Touche has been the auditor of Kumba Iron Ore Limited for 11 years.



Deloitte & Touche

Registered Auditor

Per: Sebastian Benedikt Field Carter

Partner

10 February 2017

National Executive: LL Bam Chief Executive Officer*, TMM Jordan Deputy Chief Executive Officer*, MJ Jarvis Chief Operating Officer*, GM Pinnock Audit*, N Sing Risk Advisory*, NB Kader Tax*, TP Pillay Consulting, S Gwala BPaaS, K Black Clients & Industries*, JK Mazzocco Talent & Transformation*, MJ Comber Reputation & Risk*, TJ Brown Chairman of the Board*

A full list of partners is available on request.

*Partner and registered auditor

B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

PRINCIPAL ACCOUNTING POLICIES

for the year ended 31 December 2016

1. GENERAL INFORMATION

Kumba is the holding company of the Kumba group. Kumba is a mining group of companies focusing on the exploration, extraction, beneficiation, marketing, sale and shipping of iron ore. Kumba produces iron ore at Sishen and Kolomela mines in the Northern Cape province. Until 2015, Kumba also produced iron ore from Thabazimbi mine in Limpopo province.

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

2. BASIS OF PREPARATION

2.1 Accounting framework

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

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

The following principal accounting policies and methods of computation were applied by the Company and the group in the preparation of the consolidated and standalone financial statements for the financial year ended 31 December 2016. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Statement of compliance

2.2.1 New accounting standards, amendments to published standards and interpretations

The following standards, amendments to published standards and interpretations which became effective for the year commencing on 1 January 2016 were adopted by the group:

Standard, amendment or interpretation	Impact on the financial statements
Amendments to IAS 1 <i>Disclosure Initiative</i>	In line with the spirit of the amendment, the group has focused on reducing some of the accounting policy disclosure in the financial statements
Amendments to IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	No impact on the financial statements
Amendments to IAS 16 and IAS 41 <i>Agriculture: Bearer plants</i>	No impact on the financial statements
Amendments to IAS 27 <i>Separate financial statements – Equity Method in Separate Financial Statements</i>	No impact on the financial statements
Amendments to IFRS 10, IFRS 12 and IAS 28 <i>Investment Entities – Applying the Consolidation Exception</i>	No impact on the financial statements
Amendments to IFRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations</i>	No impact on the financial statements
Annual improvements to IFRS 2012–2014	No impact on the financial statements
<ul style="list-style-type: none"> ■ Amendments to IFRS 5 <i>Non-current assets held for sale and discontinued operations</i> ■ Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> – Application of the disclosure requirements to a servicing contract ■ Amendments to IAS 19 <i>Employee Benefits</i> – discount rates 	
IFRS 14 <i>Regulatory Deferral Accounts</i>	No impact on the financial statements

2.2.2 New accounting standards and interpretations not yet effective and not early adopted

In 2016, the group did not early adopt any new, revised or amended accounting standards or interpretations. The accounting standards, amendments to issued accounting standards and interpretations, which are relevant to the group but not yet effective at 31 December 2016, are being evaluated for the impact of these pronouncements. These accounting standards are listed in annexure 4.

2.3 Currencies

Functional and presentation currency

Items included in the financial statements of each group entity are measured using the functional currency of that entity. The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The consolidated financial results are presented in South African Rand, which is Kumba's functional currency and the group's presentation currency. All amounts have been rounded to the nearest million, unless otherwise indicated.

Foreign currency transactions and balances

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

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

Foreign operations

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

All assets and liabilities, including fair value adjustments arising on acquisitions, are translated at the rate of exchange ruling at the 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 other comprehensive income. 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 in a foreign operation, the proportionate share of the related cumulative gains and losses previously recognised in the FCTR in the statement of changes in equity are re-classified in the income statement on disposal of that investment.

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or jointly controlled entities that do not result in the group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.4 Segment reporting

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

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

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2016

2. BASIS OF PREPARATION continued

2.5 Events after the reporting period

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 in note 32.

2.6 Comparative figures

Comparative figures are restated in the event of a change in accounting policy or reclassification of line items in the balance sheet. The comparative amounts in the income statement have been restated as a result of the classification of Thabazimbi mine as a discontinued operation. Refer to note 20 for more information.

3. COMPANY FINANCIAL STATEMENTS

Subsidiaries, associates and joint arrangements

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

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1 Basis of consolidation

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

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

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

Subsidiaries

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

When the group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in comprehensive income are reclassified to profit or loss.

Associates

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

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

Joint arrangements

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

Equity accounting method

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

The total carrying value of associates and joint ventures, including goodwill, are 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 or joint ventures are 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 or joint ventures.

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

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

Non-controlling interests

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

BALANCE SHEET**4.2 Property, plant and equipment**

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

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

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

- The estimated costs of decommissioning the assets and site rehabilitation costs to the extent that they relate to the asset
- Capitalised borrowing costs
- Capitalised pre-production expenditure and waste stripping costs
- Deferred waste stripping costs

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2016

4. CONSOLIDATED FINANCIAL STATEMENTS continued

4.2 Property, plant and equipment continued

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 capitalised only when the expenditure enhances the value or output of the asset beyond original expectations and it can be measured reliably. Costs incurred on repairing and maintaining assets are recognised in the 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 at the end of each reporting period, with any changes in such accounting estimates being adjusted in the year of reassessment and applied prospectively. The estimated useful lives of items of property, plant and equipment are:

Mineral properties	10 – 17 years
Residential buildings	5 – 17 years
Buildings and infrastructure	5 – 17 years
Machinery, plant and equipment	
■ Mobile equipment, built-in process computers and reconditionable spares	2 – 17 years
■ Fixed plant and equipment	4 – 17 years
■ Loose tools and computer equipment	5 years
Mineral exploration, site preparation and development	5 – 17 years

Research, development, mineral exploration and evaluation costs

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

- Evaluates as being technically or commercially feasible
- Has sufficient resources to complete development
- Can demonstrate that it will generate future economic benefits

Research, development, mineral exploration and evaluation costs continued

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

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

Waste stripping expenses

The removal of overburden or waste material is required to obtain access to an ore body. In the production phase of a mine, the mining costs associated with this process are deferred to the extent that the actual stripping ratio of a component is higher than

the expected average life-of-mine (LoM) stripping ratio for that component. The deferred costs are charged to operating costs using a unit of production method of depreciation. The ex-pit ore extracted from the related component during the period is expressed as a percentage of the total ex-pit ore expected to be extracted from that component over the LoM and applied to the balance of the deferred stripping asset for that component. The effect of this will therefore be that the cost of stripping in profit or loss will be reflective of the average stripping rates for the ore body that is mined in any given period. This reflects the fact that waste removal is necessary to gain access to the ore body and therefore realises future economic benefit.

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

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

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

4.3 Impairment of non-financial assets

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows cash-generating units (CGUs).

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 (other than a goodwill impairment) is reversed insofar as estimates change as a result of an event occurring after the impairment was recognised. An impairment is reversed only to the extent that the asset or 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 and evaluation assets are tested for impairment when development of the property commences or whenever facts and circumstances indicate impairment. An impairment is recognised for the amount by which the exploration assets' carrying amount exceeds their recoverable amount. For the purpose of assessing impairment, the relevant exploration and evaluation assets are included in the existing cash-generating units of producing properties that are located in the same region.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2016

4. CONSOLIDATED FINANCIAL STATEMENTS continued

4.4 Non-current assets held for sale

Non-current assets held for sale, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss thereon is allocated to assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or biological assets which continue to be measured in accordance with the group's other accounting policies. Impairment loss on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss.

4.5 Financial assets

Recognition and measurement

Regular 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. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Finance cost/income' in the period in which they arise.

Classification

The group classifies its financial assets into either the 'at fair value through profit or loss' (FVTPL) or '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.

Financial assets at fair value through profit or loss

FVTPL financial assets are financial assets that are designated by the group as at FVTPL on initial recognition or financial assets held for trading. 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 policies. 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. Derivatives are categorised as held for trading.

Financial assets at fair value through profit or loss consist of derivative financial assets as well as the investments held by the environmental trusts.

Loans and receivables

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 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet.

Trade and other receivables

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

If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Cash and cash equivalents

In the consolidated and separate statements of cash flow, cash and cash equivalents comprise cash on hand, deposits held at call with banks and investments in money market instruments that are readily convertible to a known amount of cash with original maturities of three months or less, all of which are available for use by the group unless otherwise stated. The broker margin accounts on derivatives which meet the definition of cash equivalents are also presented as part of cash and cash equivalents.

4.6 Impairment of financial assets

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 of those assets, an impairment loss is recognised by way of an allowance account in the income statement.

An impairment is reversed when evidence exists that the 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.

4.7 Financial liabilities

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

Financial liabilities (other than derivative liabilities) are subsequently carried at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Interest calculated using the effective interest rate method is recognised in profit or loss.

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

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2016

4. CONSOLIDATED FINANCIAL STATEMENTS continued

4.7 Financial liabilities continued

Interest-bearing borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

4.8 Derivative financial instruments

Derivative instruments are categorised as at FVTPL, financial instruments held for trading for recognition and measurement purposes and are classified as current assets or liabilities. All derivative instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value at balance sheet date. Resulting gains or losses on derivative instruments are recognised in the income statement. The broker margin accounts on derivatives which meet the definition of cash equivalents are presented as part of cash and cash equivalents.

4.9 Offsetting financial instruments

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

4.10 Finance leases

Until 2015, the group leased certain heavy mining equipment. Leases where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased equipment and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding lease obligations, net of finance charges, are included in interest-bearing borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The equipment acquired under finance leases are depreciated over the useful life of the asset.

4.11 Inventories

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

The cost of finished goods and work-in-progress comprises 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 variable 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.

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

4.12 Share capital

Ordinary shares are classified as equity instruments.

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

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

4.13 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. Dividends withholding tax is levied on the recipient but collected by the group and remitted to the authorities. A liability is recognised in respect of the tax levied for the period when the dividends are recognised as a liability. Dividends withholding tax is not 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.

4.14 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Environmental rehabilitation

Environmental rehabilitation provisions

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

Ongoing rehabilitation expenditure

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

Decommissioning provision

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

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2016

4. CONSOLIDATED FINANCIAL STATEMENTS continued

4.15 Deferred tax

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

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

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

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

Deferred tax asset is recognised within the same tax entity. 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 and laws that are enacted or substantively enacted in the period when the liability is settled or the asset is realised. Deferred tax is recognised in the income statement, except when it relates to items recognised directly to equity, in which case the deferred tax is also taken directly to equity.

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

4.16 Employee benefits

Post-employment benefits

The group operates defined contribution plans for the benefit of its employees. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate 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.

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

Bonus plans

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

Termination benefits

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

The group recognises termination benefits when it has demonstrated its commitment to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If the benefits are due more than 12 months after 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 fair value of the share options is measured using option pricing models. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations such as volatility, dividend yield and the vesting period. The fair value takes into account the terms and conditions on which these incentives are granted and the extent to which the employees have rendered services to balance sheet date.

INCOME STATEMENT**4.17 Revenue recognition**

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 services in the ordinary course of the group's activities. Revenue excludes value added tax (VAT), 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 when the related sale of iron ore is recognised as indicated by the relevant sales terms stipulated in the sales contract.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2016

4. CONSOLIDATED FINANCIAL STATEMENTS continued

4.18 Cost of sales

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

4.19 Income from investments

Interest income

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

Dividend income

Dividends received by the Company are recognised when the right to receive payment is established. All dividend income received within the group is eliminated on consolidation.

4.20 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.

Qualifying assets are assets that necessarily take a substantial period of time (more than 12 months) to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

4.21 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.

4.22 Operating leases

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

4.23 Taxation

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

Dividend tax

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

4.24 Earnings per share

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

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

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

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

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

4.25 Convenience translation from Rand to US Dollar

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
- 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.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2016

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

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:

5.1 Consolidation of special purpose entities

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

5.2 Segment reporting

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

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

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

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

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

Any change in management's estimate of the useful lives and residual values of assets would impact the depreciation charge.

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

5.4 Waste stripping costs

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

- Average LoM stripping ratio
- Total expected production over the LoM

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

5.5 Assessment of fair value

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

Fair value less cost to sell is determined based on observable market data (in the case of listed entities, market share price at 31 December of the respective entity) or discounted cash flow (DCF) models (and other valuation techniques) using assumptions considered to be reasonable and consistent with those that would be applied by a market participant. Where discounted cash flows are used, the resulting fair value measurements are considered to be at level 3 in the fair value hierarchy as defined in IFRS 13 *Fair Value Measurement* as they depend, to a significant extent, on unobservable valuation inputs. The determination of assumptions used in assessing the fair value of identifiable assets and liabilities is subjective and the use of different valuation assumptions could have a significant impact on financial results. In particular, expected future cash flows, which are used in discounted cash flow models, are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including Ore Reserves and Resources, together with economic factors such as commodity prices, exchange rates, discount rates and estimates of production costs and future capital expenditure.

Cash flow projections

Cash flow projections are based on financial budgets and LoM plans, incorporating key assumptions as detailed below:

■ Reserves and resources

Ore reserves and, where considered appropriate, mineral resources are incorporated in projected cash flows, based on ore reserves and mineral resource statements and exploration and evaluation work undertaken by appropriately qualified persons. Mineral resources are included where management has a high degree of confidence in their economic extraction, despite additional evaluation still being required prior to meeting the requirements of reserve classification.

■ Commodity and product prices

Commodity and product prices are based on latest internal forecasts, benchmarked with external sources of information, to ensure they are within the range of available analyst forecasts. Where existing sales contracts are in place, the effects of such contracts are taken into account in determining future cash flows.

■ Foreign exchange rates

Foreign exchange rates are based on the latest internal forecasts, benchmarked with external sources of information. Foreign exchange rates are kept constant (on a real basis) from 2026 onwards.

■ Discount rates

Cash flow projections used in fair value less costs of disposal impairment models are discounted based on a real post-tax discount rate of 6.5% (2015: 6.5%). To the extent that specific risk factors were not incorporated into the discount rate, adjustments were made to the cash flow projections.

■ Operating costs, capital expenditure and other operating factors

Operating costs and capital expenditure are based on financial budgets covering a five-year period. Cash flow projections beyond five years are based on LoM plans as applicable, and internal management forecasts. Cost assumptions incorporate management experience and expectations.

5.6 Impairment of assets

In light of the volatile iron ore price environment, the group reviews whether the carrying value of its property, plant and equipment is recoverable, or whether a reversal of previous impairment losses is required. In making assessments for impairment, management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate CGUs, and also in estimating the timing and value of underlying cash flows within the calculation of the recoverable amount.

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

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2016

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

5.7 Equity-settled share-based payment reserve

Management makes certain judgements in respect of selecting appropriate fair value option pricing models to be used in estimating the fair value of the various share-based payment arrangements in respect of employees and special purpose entities. Judgements and assumptions are also made in calculating the variable elements used as inputs in these models. The inputs that are used in the models include, but are not limited to, the expected vesting period and related conditions, share price, dividend yield, share option life, risk-free interest rate and annualised share price volatility (refer to Annexure 3).

5.8 Provision for environmental rehabilitation and decommissioning

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

5.9 Deferred tax assets

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

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

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

5.11 Provisionally priced revenue from spot sales

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

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

5.12 Going concern

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

5.13 Lease accounting

The group follows the guidance in IFRIC 4 *Determining whether an Arrangement contains a lease* to determine how to account for a supply agreement. This determination requires significant judgement. In making this judgement, the group evaluates whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

6. TERMINATION OF THE THABAZIMBI MINE FINANCE LEASE AND RESULTING ACCOUNTING TREATMENT

Based on its evaluation of the Thabazimbi mining arrangement with ArcelorMittal SA, the group concluded that the arrangement contained a lease and as a result, the underlying asset was the subject of a lease. Furthermore, the group had to classify the lease as either an operating lease or a finance lease. The group concluded the lease had to be classified as a finance lease. This classification also required significant judgement. In making this judgement, the group used, as guidance, the indicators provided in paragraph 10 of IAS 17. As at 31 December 2015, the net investment in the lease had a zero carrying value as it was fully settled.

During the current year, the leasing arrangement terminated as a result of the closure of the Thabazimbi mine. The accounting for the unwind of the lease accounting resulted in the recognition of certain property, plant and equipment on the balance sheet to the value of R167 million with a resulting gain of R164 million recognised in the income statement. Some of these assets were transferred to Sishen and Kolomela. Some of the assets remain in the balance sheet, and subsequent to the termination of the lease, an impairment loss of R4 million was recognised. Refer to note 20 for additional disclosure in this regard.

7. DISCONTINUED OPERATIONS

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is represented as if the operation had been discontinued from the beginning of the comparative year. Please refer to note 20.

BALANCE SHEET

as at 31 December

Rand million	Notes	2016	2015
ASSETS			
Property, plant and equipment	2	32,131	32,671
Biological assets		2	11
Investments held by environmental trust	3	559	818
Long-term prepayments and other receivables	4	84	581
Inventories	5	2,889	2,560
Deferred tax assets	10	87	1
Non-current assets		35,752	36,642
Inventories	5	4,604	5,056
Trade and other receivables	6	5,253	3,212
Cash and cash equivalents	7	10,665	3,601
Current assets		20,522	11,869
Assets of disposal group classified as held for sale	20	938	-
Total assets		57,212	48,511
EQUITY AND LIABILITIES			
Shareholders' equity		27,850	19,320
Non-controlling interests	23	8,686	5,847
Total equity		36,536	25,167
Liabilities			
Interest-bearing borrowings	8	4,500	8,000
Provisions	9	1,967	2,717
Deferred tax liabilities	10	7,462	7,680
Non-current liabilities		13,929	18,397
Interest-bearing borrowings	8	-	205
Provisions	9	164	349
Trade and other payables	11	3,741	3,407
Current tax liabilities		1,906	986
Current liabilities		5,811	4,947
Liabilities of disposal group classified as held for sale	20	936	-
Total liabilities		20,676	23,344
Total equity and liabilities		57,212	48,511

BALANCE SHEET – US\$ CONVENIENCE TRANSLATION

(supplementary information)

as at 31 December

US Dollar million	2016	2015
ASSETS		
Property, plant and equipment	2,340	2,112
Biological assets	–	1
Investments held by environmental trust	41	53
Long-term prepayments and other receivables	6	38
Inventories	210	165
Deferred tax assets	6	–
Non-current assets	2,603	2,369
Inventories	335	327
Trade and other receivables	383	208
Cash and cash equivalents	776	233
Current assets	1,494	768
Assets of disposal group classified as held for sale	68	–
Total assets	4,165	3,137
EQUITY AND LIABILITIES		
Shareholders' equity	2,025	1,249
Non-controlling interests	633	378
Total equity	2,658	1,627
Liabilities		
Interest-bearing borrowings	328	517
Provisions	143	176
Deferred tax liabilities	544	497
Non-current liabilities	1,015	1,190
Interest-bearing borrowings	–	13
Provisions	12	23
Trade and other payables	273	220
Current tax liabilities	139	64
Current liabilities	424	320
Liabilities of disposal group classified as held for sale	68	–
Total liabilities	1,507	1,510
Total equity and liabilities	4,165	3,137
EXCHANGE RATE		
Translated at closing Rand/US Dollar exchange rate	13.73	15.47

INCOME STATEMENT

for the year ended 31 December

Rand million	Notes	2016	Restated 2015
Revenue	12	40,155	35,260
Operating expenses	13	(24,881)	(32,564)
Operating profit	14	15,274	2,696
Finance income	17	295	148
Finance costs	17	(496)	(853)
Share of profit of equity accounted joint venture		2	6
Profit before taxation		15,075	1,997
Taxation	18	(3,934)	(1,280)
Profit for the year from continuing operations		11,141	717
Discontinued operation			
Profit/(loss) from discontinued operation	20	3	(90)
Profit for the year		11,144	627
Attributable to:			
Owners of Kumba		8,621	469
Non-controlling interests		2,523	158
		11,144	627
Basic earnings/(loss) per share attributable to the ordinary equity holders of Kumba (Rand per share)			
From continuing operations		26.97	1.68
From discontinued operation		0.01	(0.22)
Total basic earnings per share		26.98	1.46
Diluted earnings(loss) per share attributable to the ordinary equity holders of Kumba (Rand per share)			
From continuing operations		26.83	1.68
From discontinued operation		0.01	(0.22)
Total diluted earnings per share		26.84	1.46

The comparative amounts for 2015 have been restated to reflect Thabazimbi mine as a discontinued operation.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

Rand million	2016	2015
Profit for the year	11,144	627
Other comprehensive income for the year¹	(233)	255
Exchange differences on translation of foreign operations	(233)	255
Total comprehensive income for the year	10,911	882
Attributable to:		
Owners of Kumba	8,442	592
Non-controlling interests	2,469	290
	10,911	882

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

INCOME STATEMENT – US\$ CONVENIENCE TRANSLATION

(supplementary information)

for the year ended 31 December

US Dollar million	2016	Restated 2015
Revenue	2,733	2,832
Operating expenses	(1,694)	(2,625)
Operating profit	1,039	207
Finance income	20	21
Finance costs	(34)	(69)
Share of profit of equity accounted joint venture	–	–
Profit before taxation	1,025	159
Taxation	(268)	(111)
Profit for the year from continuing operations	757	48
Discontinued operation		
Loss from discontinued operation	–	(7)
Profit for the year	757	41
Attributable to:		
Owners of Kumba	587	31
Non-controlling interests	170	10
	757	41
Basic earnings/(loss) per share attributable to the ordinary equity holders of Kumba (US Dollar per share)		
From continuing operations	1.84	0.13
From discontinued operation	0.00	(0.02)
Total diluted earnings per share	1.84	0.11
Diluted earnings/(loss) per share attributable to the ordinary equity holders of Kumba (US Dollar per share)		
From continuing operations	1.83	0.13
From discontinued operation	0.00	(0.02)
Total diluted earnings per share	1.83	0.11
EXCHANGE RATE		
Translated at average Rand/US Dollar exchange rate	14.69	12.76

The comparative amounts for 2015 have been restated to reflect Thabazimbi mine as a discontinued operation.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

Rand million		Share capital and share premium	Treasury shares	Equity-settled share-based payments reserve	Foreign currency translation reserve	Fair value reserve	Retained earnings	Shareholders' equity	Non-controlling interest	Total equity
	Notes	21	21	22					23	
Balance at 31 December 2014		373	(684)	1,685	1,256	74	18,060	20,764	6,237	27,001
Equity-settled share-based payments expense		–	–	469	–	–	–	469	116	585
Vesting of shares under employee share incentive schemes		(6)	186	(133)	–	–	(47)	–	–	–
Total comprehensive income for the year		–	–	–	197	(74)	469	592	290	882
Dividends paid*		–	–	–	–	–	(2,505)	(2,505)	(796)	(3,301)
Balance at 31 December 2015		367	(498)	2,021	1,453	–	15,977	19,320	5,847	25,167
Net movement in treasury shares under employee share incentive schemes		–	(180)	–	–	–	–	(180)	–	(180)
Equity-settled share-based payments expense		–	–	513	–	–	–	513	125	638
Vesting of shares under employee share incentive schemes		–	197	(2,342)	–	–	2,145	–	–	–
Total comprehensive income for the year		–	–	–	(179)	–	8,621	8,442	2,469	10,911
Change in effective ownership as a result of the unwind of Envision (refer to note 22)		–	–	(20)	(12)	–	(213)	(245)	245	–
Balance at 31 December 2016		367	(481)	172	1,262	–	26,530	27,850	8,686	36,536

The group did not declare any dividends during 2016 or 2015.

Equity-settled share-based payments reserve

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

Foreign currency translation reserve

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

CASH FLOW STATEMENT

for the year ended 31 December

Rand million	Notes	2016	2015
Cash flows from operating activities			
Cash receipts from customers		38,797	38,352
Cash paid to suppliers and employees		(21,579)	(24,511)
Cash generated from operations	24	17,218	13,841
Income from investments		2	–
Net finance costs paid	25	(319)	(578)
Taxation paid	26	(3,363)	(594)
		13,538	12,669
Cash flows used in investing activities			
Additions to property, plant and equipment	28	(2,353)	(6,752)
Loan repaid by joint venture		–	5
Proceeds from disposal of property, plant and equipment		9	120
		(2,344)	(6,627)
Cash flows used in financing activities			
Purchase of treasury shares		(180)	–
Dividends paid to owners of Kumba	27	–	(2,490)
Dividends paid to non-controlling interests	27	–	(811)
Interest-bearing borrowings raised		30	10,400
Interest-bearing borrowings repaid		(3,735)	(11,788)
		(3,885)	(4,689)
Net increase in cash and cash equivalents		7,309	1,353
Cash and cash equivalents at beginning of year	7	3,601	1,664
Exchange differences on translation of cash and cash equivalents		(245)	584
Cash and cash equivalents at end of year	7	10,665	3,601

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December

1. SEGMENT REPORTING

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

The total reported segment revenue comprises revenue from external customers, and is measured in a manner consistent with that disclosed in the income statement.

The performance of the operating segments are assessed based on earnings before interest and tax (EBIT), which is consistent with 'Operating profit' in the financial statements. Finance income and finance costs are not allocated to segments, as treasury activity is managed on a central group basis.

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

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

Rand million	Products ¹				Services		Total ⁵
	Sishen mine	Kolomela mine	Thabazimbi mine	Logistics ²	Shipping operations	Other	
2016							
Income statement:							
Revenue (from external customers)	26,644	10,764	612	–	2,747	–	40,767
EBIT ³	14,194	6,539	41	(5,379)	(370)	290	15,315
The following significant items are included in EBIT:							
Depreciation	1,992	943	2	9	–	145	3,091
Impairment loss	–	–	4	–	–	–	4
Staff costs	3,045	738	62	29	–	717	4,591
Balance sheet:							
Total segment assets	606	163	–	651	–	58	1,478
Cash flow statement:							
Additions to property, plant and equipment ⁴							
Expansion capex	735	110	–	–	–	11	856
Stay-in-business capex	729	259	–	1	–	187	1,176
Deferred stripping	88	233	–	–	–	–	321

1. SEGMENT REPORTING continued

Rand million	Products ¹				Services		Total ⁵
	Sishen mine	Kolomela mine	Thabazimbi mine	Logistics ²	Shipping operations	Other	
2015							
Income statement:							
Revenue (from external customers)	23,869	7,980	877	–	3,412	–	36,138
EBIT ³	4,273	4,423	(52)	(5,506)	(247)	(247)	2,644
The following significant items are included in EBIT:							
Depreciation	2,428	732	–	6	–	157	3,323
Impairment loss	5,978	–	–	–	–	–	5,978
Staff costs	3,048	642	429	30	–	517	4,666
Balance sheet:							
Total segment assets	651	198	224	510	–	269	1,852
Cash flow statement:							
Additions to property, plant and equipment							
Expansion capex	857	–	–	–	–	13	870
Stay-in-business capex	2,350	498	–	4	–	178	3,030
Deferred stripping	2,508	344	–	–	–	–	2,852

¹ Derived from extraction, production and selling of iron ore.

² No revenue is reported for this segment as its performance is reviewed with reference to volumes railed and rail tariffs achieved.

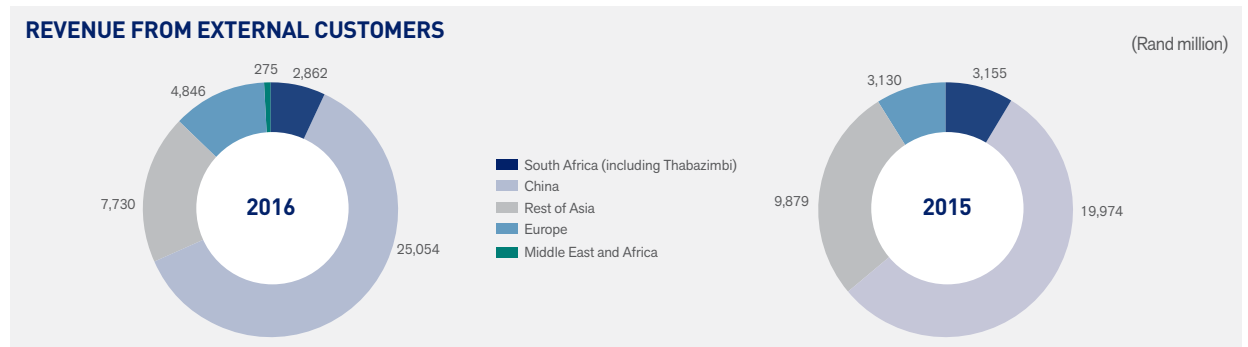
³ There was no impairment or reversal of impairment for Sishen mine in 2016. The impairment of R4 million relates to Thabazimbi (2015: after an impairment of R5,978 million at Sishen mine).

⁴ As a result of the Thabazimbi mine lease termination, Thabazimbi mine recognised assets of R167 million and a gain in profit or loss of R164 million. The R167 million represents a non-cash addition and therefore is not included above.

⁵ The amounts in the total column are inclusive of the Thabazimbi mine amounts. These amounts are not included in each income statement line item as the Thabazimbi mine is a discontinued operation and is therefore disclosed separately.

Rand million	Note	2016	2015
Reconciliation of reportable segments' assets to inventories			
Segment assets for reportable segments		1,478	1,852
WIP inventory, plant spares and stores		6,020	5,764
WIP inventory, plant spares and stores transferred to assets of disposal group classified as held for sale (note 20)		(5)	–
Inventories per balance sheet	5	7,493	7,616

GEOGRAPHICAL ANALYSIS



Non-current assets

All non-current assets are located in South Africa, with the exception of R14 million located in Singapore (2015: R32 million), which relates to prepayments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

CONTINUED

for the year ended 31 December

2. PROPERTY, PLANT AND EQUIPMENT

Rand million	Land	Mineral properties	Residential buildings	Buildings and infrastructure	Machinery, plant and equipment	Mineral exploration, site preparation and development	Assets under construction	Total
2016								
Cost								
Balance at beginning of year	295	621	3,434	5,312	31,296	6,709	4,456	52,123
Additions (refer to note 28)								
Capital acquisitions	–	–	1	–	10	–	2,021	2,032
Deferred stripping	–	–	–	–	–	321	–	321
Borrowing costs capitalised	–	–	–	–	26	–	204	230
Changes in decommissioning provision (refer to note 9)	–	–	–	–	2	–	7	9
Disposals and scrapping	–	–	(5)	–	(749)	–	–	(754)
Reclassification to assets of disposal group held for sale	–	–	(15)	(27)	(37)	(6)	–	(85)
Assets recognised as a result of Thabazimbi lease termination	–	–	–	–	165	2	–	167
Transfers between asset classes	–	–	42	126	2,224	–	(2,392)	–
Exchange differences on translation	–	–	–	–	*	–	–	–
Balance at 31 December 2016	295	621	3,457	5,411	32,937	7,026	4,296	54,043
Accumulated depreciation								
Balance at beginning of year	–	311	389	924	10,927	484	–	13,035
Reclassification to assets of disposal group held for sale	–	–	(15)	(27)	(30)	(5)	–	(77)
Depreciation	–	16	137	250	2,339	349	–	3,091
Disposals and scrapping	–	–	(3)	–	(555)	–	–	(558)
Exchange differences on translation	–	–	–	–	*	–	–	–
Balance at 31 December 2016	–	327	508	1,147	12,681	828	–	15,491
Impairment charge								
Balance at beginning of year	30	70	396	411	3,224	1,376	910	6,417
Impairment charge	–	–	–	–	4	–	–	4
Balance at 31 December 2016	30	70	396	411	3,228	1,376	910	6,421
Carrying amount at 31 December 2016								
	265	224	2,553	3,853	17,028	4,822	3,386	32,131

* Value is less than R1 million.

2. **PROPERTY, PLANT AND EQUIPMENT** continued

Rand million	Land	Mineral properties	Residential buildings	Buildings and infrastructure	Machinery, plant and equipment	Mineral exploration, site preparation and development	Assets under construction	Total
2015								
Cost								
Balance at beginning of year	319	621	3,335	4,989	28,392	3,985	4,218	45,859
Additions (refer to note 28)								
Capital acquisitions	10	–	23	–	330	–	3,537	3,900
Deferred stripping	–	–	–	–	–	2,852	–	2,852
Borrowing costs capitalised	–	–	–	17	–	–	96	113
Changes in decommissioning provision (refer to note 9)	–	–	–	21	21	–	24	66
Disposals and scrapping	(34)	–	(11)	–	(495)	(128)	–	(668)
Transfers between asset classes	–	–	87	285	3,047	–	(3,419)	–
Exchange differences on translation	–	–	–	–	1	–	–	1
Balance at 31 December 2015	295	621	3,434	5,312	31,296	6,709	4,456	52,123
Accumulated depreciation								
Balance at beginning of year	–	290	239	674	8,705	342	–	10,250
Depreciation	–	21	151	250	2,631	270	–	3,323
Disposals and scrapping	–	–	(1)	–	(410)	(128)	–	(539)
Exchange differences on translation	–	–	–	–	1	–	–	1
Balance at 31 December 2015	–	311	389	924	10,927	484	–	13,035
Impairment losses								
Balance at beginning of year	–	–	9	1	–	429	–	439
Impairment loss	30	70	387	410	3,224	947	910	5,978
Balance at 31 December 2015	30	70	396	411	3,224	1,376	910	6,417
Carrying amount at 31 December 2015	265	240	2,649	3,977	17,145	4,849	3,546	32,671

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

2. PROPERTY, PLANT AND EQUIPMENT *continued*

Impairment/reversal of impairments

Kumba produces iron ore at Sishen and Kolomela mines in the Northern Cape province. The two mines are treated as separate CGUs. Each CGU consists of its respective mining assets located in the Northern Cape. In the 2015 financial year, Sishen was impaired by R6 billion, including an associated deferred tax credit of R1.7 billion. Kolomela was not impaired.

The increases in iron ore prices and Kumba's market capitalisation in the current year were considered indicators for potential impairment reversal for Sishen. The group's non-financial assets, other than inventories and deferred tax assets, were assessed for impairment or reversal of impairment. Recoverable amounts were estimated for individual assets or, where an individual asset cannot generate cash inflows independently, the recoverable amount was determined for the CGU to which the asset belongs.

Consistent with prior year, the carrying value of Kolomela at 31 December 2016 was determined to be recoverable with fairly significant headroom and therefore, no impairment charge was recorded. The recoverable amount of Sishen at 31 December 2016, determined on a DCF basis, was R19.9 billion, which was reasonably comparable to the carrying value of R19.5 billion. Despite the short-term volatility in iron ore prices, continued supply growth is expected to put pressure on iron ore prices. As a result, the group's assumption on the long-term iron ore price outlook remains conservative. In this context, the resulting headroom for the Sishen CGU of R0.4 billion was considered not significant and therefore no portion of the impairment charge previously recognised was reversed.

The DCF model is sensitive to forecast iron ore prices, the Rand/US\$ exchange rate and the discount rate applied. The valuation is most sensitive to fluctuations in iron ore prices. It was considered whether a reasonably possible change in any of the key assumptions, would result in additional impairment or reversal of previous impairment, as shown in the table below:

Assumption	Movement in assumption	Result of sensitivity: Additional impairment/ (Reversal of impairment) Rand billion
Iron ore price	-/+ 5%	1.8 / (2.6)
Rand/US\$ exchange rates	-/+ 5%	1.6 / (2.5)
Discount rate	+/- 100 basis points	1.2 / (2.2)

Borrowing costs

During the year, R230 million in borrowing costs capitalised on qualifying assets to property, plant and equipment (2015: R113 million). A weighted average capitalisation rate of 9.11% was applied.

Additional disclosures

The group generated proceeds from the disposal of items of property, plant and equipment of R9 million (2015: R120 million).

The estimated replacement value of assets for insurance purposes and assets under construction at cost amounts to R62 billion (2015: R58.8 billion).

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

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

Rand million	2016	2015
Capital commitments		
Capital commitments include all items of capital expenditure for which specific Board approval has been obtained up to balance sheet date. Capital expenditure will be financed principally from borrowing facilities and cash generated from operations. Capital expenditure still in the study phase of the project pipeline for which specific Board approvals have not yet been obtained are excluded.		
Capital expenditure contracted for property, plant and equipment	644	1,115
Capital expenditure authorised for property, plant and equipment but not contracted	2,208	1,553

3. INVESTMENTS HELD BY ENVIRONMENTAL TRUST

Rand million	2016	2015
Balance at beginning of year	818	791
Growth in environmental trusts	37	27
Balance at end of year	855	818
Transferred to assets of disposal group classified as held for sale (note 20)	(296)	–
Balance at end of year	559	818
Comprising:	559	818
Equity	182	444
Cash	353	168
Bonds	24	206
Portion related to disposal group classified as held for sale comprising:	296	–
Equity	77	–
Cash	181	–
Bonds	38	–

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

The growth in the environmental trust includes fair value movements as well as dividend and interest income where applicable. This movement is recognised in 'net finance gains' (refer to note 16).

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 9 for the environmental rehabilitation and decommissioning provisions.

4. LONG-TERM PREPAYMENTS AND OTHER RECEIVABLES

Rand million	2016	2015
Long-term receivable*	518	471
Prepayments	81	110
Balance at end of year	599	581
Transferred to assets of disposal group classified as held for sale (note 20)	(515)	–
Balance at end of year	84	581

* This receivable relates to the long-term contractual liabilities of ArcelorMittal SA in respect of the rehabilitation obligation of Thabazimbi mine, and is partly secured by the financial guarantees set out in note 29. During the year, R96 million (2015: R99 million) of the long-term receivable was reclassified to current as rehabilitation of the Thabazimbi mine commenced in 2016.

Maturity profile of long-term prepayments and other receivables

Rand million	2016	2015
1 to 2 years	–	250
2 to 5 years	84	272
More than 5 years	–	59
	84	581
Maturity profile of long-term prepayments and other receivables related to Thabazimbi mine		
1 to 2 years	320	–
2 to 5 years	133	–
More than 5 years	62	–
	515	–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

5. INVENTORIES

Rand million	2016	2015
Finished products	1,478	1,852
Work-in-progress	4,466	4,156
Plant spares and stores	1,554	1,608
Current inventory transferred to assets of disposal group classified as held for sale (note 20)	(5)	–
Total inventories	7,493	7,616
Non-current portion of work-in progress inventories	2,889	2,560
Total current inventories	4,604	5,056
Total inventories	7,493	7,616

During the year, R8 million of inventory was written down to zero at Kolomela. No inventories were encumbered during the year.

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

6. TRADE AND OTHER RECEIVABLES

Rand million	2016	2015
Trade receivables	4,038	1,370
Allowance for doubtful debts – trade receivables	–	(11)
	4,038	1,359
Other receivables	1,244	1,674
Allowance for doubtful debts – other receivables	(20)	–
	1,224	1,674
Net trade and other receivables	5,262	3,033
Prepayments	87	141
Derivative financial instruments (refer to note 34)	–	38
	5,349	3,212
Other receivables transferred to assets of disposal group classified as held for sale (note 20)	(96)	–
	5,253	3,212

Credit risk

Kumba is largely exposed to the credit risk relating to end-user customers within the steel manufacturing industry.

Refer to note 34 for detailed disclosure regarding the group's approach to credit risk management.

Significant concentrations of credit risk

R1,226 million (2015: R1,104 million) or 61% (2015: 81%) of the total outstanding trade receivables balance of R4,038 million (2016: R1,359 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 2016.

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

6. TRADE AND OTHER RECEIVABLES continued

Rand million	2016	2015
Trade receivables credit risk exposure by geographical area		
South Africa	356	285
Europe	784	91
Asia	2,898	994
	4,038	1,370
Trade receivables credit risk exposure by currency		
Rand	356	285
US Dollar	3,682	1,085
	4,038	1,370
Ageing of trade receivables		
Not past due	4,037	1,276
Past due 31 to 60 days but not impaired	–	61
Past due more than 90 days but not impaired	1	22
	4,038	1,359

A specific other receivable of R20 million was provided for in 2016 (2015: R11 million) and it is more than 90 days past due.

The trade receivables past due but not impaired relate to customers for whom there is no recent history of default.

Rand million	2016	2015
Allowance for doubtful debt reconciliation		
Opening balance	11	–
Allowance for doubtful debt raised during the year	20	11
Allowance for doubtful debt reversed during the year	(11)	–
	20	11

Other receivables

Other receivables mainly comprise a VAT receivable of R618 million (2015: R1,124 million) and a receivable of R2 million (2015: R169 million) relating to the recovery of the retrenchment costs of Thabazimbi mine from ArcelorMittal SA.

7. CASH AND CASH EQUIVALENTS

Rand million	2016	2015
Bank balance and cash	10,078	3,601
Broker margin accounts – derivatives	587	–
Cash and cash equivalents	10,665	3,601

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

Rand million	2016	2015
Currency analysis of cash and cash equivalents		
Rand	7,675	1,063
US Dollar	2,984	2,335
Euro	4	8
Other	2	195
	10,665	3,601

Refer to note 34 for detailed disclosure regarding the group's approach to credit risk management.

Short-term deposit facilities were placed with subsidiaries of the ultimate holding company during the year under review (refer to note 33).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

8. INTEREST-BEARING BORROWINGS

Rand million	2016	2015
Long-term interest-bearing borrowings	4,500	8,000
Current interest-bearing borrowings	–	205
	4,500	8,205
Reconciliation		
Balance at beginning of year	8,205	9,593
Interest-bearing borrowings raised	30	10,400
Finance lease repaid during the year	–	(232)
Interest-bearing borrowings repaid	(3,735)	(11,556)
	4,500	8,205
Maturity profile of interest-bearing borrowings		
Within 1 year	–	205
2 to 5 years	4,500	8,000
	4,500	8,205

Rand million	Maturity date	Interest rate at 31 December	Facility	Outstanding balance	
				2016	2015
Unsecured loans					
Revolving syndicated facility at a variable interest rate of Jibar plus a margin which varies based on the period of the borrowings	2020	2016: Not applicable 2015: 8.35%	12,000	–	3,500
Term facility	2020	2016: 9.11% 2015: 8.10%	4,500	4,500	4,500
Call loan facility at floating call rates ¹	Open	2016: Not applicable 2015: 7.05%	8,320	–	205
Fair value at end of year			24,820	4,500	8,205
Carrying value at end of year			24,820	4,500	8,205

¹ No amount from this facility was drawn down in 2016. This is a facility with a related party (refer to note 33).

The group's committed debt facilities of R16.5 billion (R4.5 billion term facility and R12 billion revolving facility) mature in 2020. At 31 December 2016, R4.5 billion of the committed facility had been drawn down. The directors approved the early settlement of the term facility and notice was given to the lenders on 3 February 2017. As a result of the settlement, the loan cannot be drawn down again, effectively reducing the group's committed debt facilities to R12 billion.

The three-month Jibar rate at 31 December 2016 was 7.358% (2015: 6.625%).

Financial covenants

The group is in compliance with its debt covenants (Total debt/earnings before interest, tax, depreciation and amortisation (EBITDA) and EBITDA/net interest expense). This was also the case in 2015.

Currency analysis of interest-bearing borrowings

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

9. PROVISIONS

Rand million	Employee benefits cash-settled share-based payments	Environmental rehabilitation	Decommissioning	Other	Total
Non-current provisions	35	2,266	478	10	2,789
Current portion of provisions	2	106	–	170	278
Transferred to liabilities of disposal group classified as held for sale	–	(906)	(14)	(16)	(936)
Total provisions	37	1,466	464	164	2,131
2016					
Balance at beginning of the year	33	2,327	436	270	3,066
Unwinding of discount (refer to note 17)	–	112	33	–	145
Increase in provision charged to income statement	9	143	–	525	677
Unused amounts reversed	–	(149)	–	(115)	(264)
Exchange differences on translation	(4)	–	–	–	(4)
Capitalised to property, plant and equipment (refer to note 2)	–	–	9	–	9
Utilised during the year	(1)	(61)	–	(500)	(562)
Transferred to liabilities of disposal group classified as held for sale	–	(906)	(14)	(16)	(936)
Balance at 31 December 2016	37	1,466	464	164	2,131
Expected timing of future cash flows					
Within 1 year	2	–	–	162	164
2 to 5 years	35	–	–	2	37
More than 5 years	–	1,466	464	–	1,930
	37	1,466	464	164	2,131
Estimated undiscounted obligation	37	3,254	692	164	4,147
2015					
Non-current provisions	31	2,228	436	22	2,717
Current portion of provisions	2	99	–	248	349
Total provisions	33	2,327	436	270	3,066
Balance at beginning of the year	25	1,608	345	78	2,056
Unwinding of discount (refer to note 17)	–	103	25	–	128
Increase in provision charged to income statement	14	616	–	250	880
Capitalised to property, plant and equipment (refer to note 2)	–	–	66	–	66
Utilised during the year	(6)	–	–	(58)	(64)
Balance at 31 December 2015	33	2,327	436	270	3,066
Expected timing of future cash flows					
Within 1 year	2	99	–	248	349
2 to 5 years	31	376	–	22	429
More than 5 years	–	1,852	436	–	2,288
	33	2,327	436	270	3,066
Estimated undiscounted obligation	33	3,290	649	270	4,242

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

9. PROVISIONS continued

Cash-settled share-based payments

At 31 December the current provision represents amounts payable to deceased beneficiaries on the Envision phase 2 share scheme (refer to annexure 3). The non-current provision represents amounts payable to beneficiaries of the certain conditional share awards under the bonus share scheme.

Environmental rehabilitation

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

Decommissioning

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

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

Contributions towards the cost of mine closure are made to the Kumba Iron Ore Rehabilitation Trust and the carrying value of the assets held by the Trust amounted to R855 million at 31 December 2016 (of which R296 million will potentially transfer to ArcelorMittal SA on conclusion of the sale agreement (2015: R818 million).

Other

Other provisions relate to restructuring as well as rail and port activities.

Significant accounting estimates and assumptions

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

The resultant changes in the provisions are summarised as follows and are as a result of a LoM change at Sishen mine:

Rand million	Environmental rehabilitation	Decommissioning	Total
Change in provision	(6)	9	3
Revised estimates of closure costs	40	22	61
Expected timing of future cash flows	(46)	(13)	(58)

The change in expected timing of future cash flows, which decreased the closure provisions by R58 million, is the result of the revision of the LoM plan for Sishen, Kolomela and Thabazimbi. The R9 million increase in the decommissioning provision was capitalised to property, plant and equipment whereas the R2 million decrease was recognised to the income statement increasing the profits attributable to the owners of Kumba with R1 million.

These sensitivities are provided excluding the impact of Thabazimbi, given the anticipated sales transaction disclosed in note 20.

The carrying value of the closure provisions are sensitive to the estimates and assumptions used in its measurement. If the discount rate had been 1% higher than management's estimate, the group would have decreased the current provision by R208 million (2015: R330 million). On the other hand, if the discount rate had been 1% lower than management's estimate, the group would have increased the current provision by R242 million (2015: R244 million). A change of one year in the expected timing of the commencement of environmental rehabilitation and decommissioning would result in an increase of R66 million (2015: R80 million), if the period was decreased by one year or a decrease of R62 million (2015: R90 million), if the period was increased by one year in the carrying value of the provision.

10. DEFERRED TAX

Rand million	2016	2015
Deferred tax assets		
Reconciliation		
Balance at beginning of year	1	871
Foreign exchange translation differences	–	50
Current year utilisation	–	(119)
Derecognition of deferred tax asset	–	(801)
Recognition of previously derecognised deferred tax asset	86	–
	87	1
Expected timing		
Deferred tax assets to be recovered within 12 months	87	1
	87	1
Deferred tax assets attributable to the following temporary differences		
Estimated tax losses	87	–
Total deferred tax assets	87	1

There is R2.4 billion of unused tax losses for which no deferred tax asset was recognised at 31 December 2016 (2015: R4.7 billion). The deferred tax asset recognised is based on expected tax profits in the short term. There is no expiry date for unrecognised tax losses.

Rand million	2016	2015
Deferred tax liabilities		
Reconciliation		
Balance at beginning of year	7,680	8,201
Discontinued operation – prior year adjustment	(14)	–
Continuing operations – prior year adjustment	(10)	108
Discontinued operation – current year charge	335	(132)
Continuing operations – current year charge	(529)	(497)
	7,462	7,680
Expected timing		
Deferred tax liabilities to be recovered after 12 months	7,235	6,963
Deferred tax liabilities to be recovered within 12 months	227	717
	7,462	7,680
Deferred tax liabilities attributable to the following temporary differences		
Property, plant and equipment	8,050	8,169
Environmental rehabilitation provision	(655)	(624)
Decommissioning provision	(55)	(50)
Environmental rehabilitation trust asset	239	229
Leave pay accrual	(61)	(75)
Other	(56)	31
Total deferred tax liabilities	7,462	7,680

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for the year ended 31 December

11. TRADE AND OTHER PAYABLES

Rand million	2016	2015
Trade payables	2,959	2,264
Other payables	563	875
Leave pay accrual	219	267
Derivative financial instruments (refer to note 34)	–	1
	3,741	3,407
Currency analysis of trade and other payables		
Rand	3,346	2,597
US Dollar	391	800
Euro	4	9
Other	–	1
	3,741	3,407

Other payables include a bonus accrual of R408 million (2015: R275 million).

12. REVENUE

Rand million	2016	Restated 2015
Sale of iron ore	37,408	31,848
Services rendered – shipping	2,747	3,412
	40,155	35,260
Sales by destination		
Domestic – South Africa	2,250	2,277
Export	37,905	32,983
China	25,054	19,974
Rest of Asia	7,730	9,879
Europe	4,846	3,130
Middle East and Africa	275	–
	40,155	35,260

13. OPERATING EXPENSES

Rand million	Notes	2016	Restated 2015
Operating expenditure by function			
Production costs		16,282	16,971
Movement in work-in-progress inventories		(452)	(355)
Cost of goods produced			
Movement in finished product inventories		84	1,427
Net finance gains	16	(657)	(813)
Other		194	52
Cost of goods sold			
Impairment charge	2	–	5,978
Mineral royalty ¹		963	172
Selling and distribution costs		5,379	5,507
Distribution costs		5,227	5,291
Selling costs		152	216
Cost of services rendered – shipping		3,115	3,657
Sub-lease rentals received		(27)	(32)
Operating expenses		24,881	32,564

¹ The increase is mainly as a result of the increased profitability.

13. OPERATING EXPENSES continued

Rand million	Notes	2016	Restated 2015
Cost of goods sold comprises			
Staff costs		4,529	4,237
Salaries and wages		3,117	3,198
Equity-settled share-based payments		638	585
Cash-settled share-based payments		9	8
Termination benefits		384	34
Pension and medical aid contributions	15	381	412
Outside services		3,075	4,416
Raw materials and consumables		2,776	3,914
Deferred stripping costs capitalised		(321)	(2,852)
Depreciation of property, plant and equipment	2	3,089	3,323
Mineral properties		16	21
Residential buildings		137	151
Buildings and infrastructure		250	250
Machinery, plant and equipment		2,338	2,631
Mineral exploration, site preparation and development		348	270
Repairs and maintenance		1,668	2,007
Legal		29	30
Professional fees		119	165
Technical services and project studies		128	229
General expenses		1,142	1,212
Net finance gains	16	(657)	(813)
Energy costs		339	341
Own work capitalised		(97)	1
Net movement in finished product and work-in-progress inventories		(368)	1,072
Cost of goods sold		15,451	17,282

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

14. SIGNIFICANT ITEMS INCLUDED IN OPERATING PROFIT

Rand million	2016	Restated 2015
Operating profit includes the following amounts, some of which are also included in the analysis of operating expenses disclosed in the previous note:		
Staff costs		
Employee expenses	3,442	3,997
Net restructuring costs	384	34
Restructuring costs	384	384
Reimbursement from third party	–	(350)
Share-based payments expenses	647	593
Directors' emoluments (refer to remuneration report on page 28)	25	26
Executive directors		
Emoluments received as directors of the Company	14	15
Bonuses and cash incentives	5	5
Non-executive directors – emoluments received as directors of the Company	6	6
Prescribed officers' remuneration (excluding executive directors – refer to remuneration report on page 28)	30	29
Depreciation of property, plant and equipment (refer to note 2)	3,089	3,323
Operating lease rental expenses		
Equipment	80	125
Property	89	99
Auditors' remuneration		
Audit fees	9	8
Other services	1	–
Research and development cost	1	3
(Gain)/loss on lease receivable	(164)	–
Net loss on disposal or scrapping of property, plant and equipment	191	9
Operating sub-lease rentals received		
Property	(27)	(32)
Insurance proceeds received on items of property, plant and equipment written off in prior periods	–	(29)

15. EMPLOYEE BENEFITS: DEFINED CONTRIBUTION FUNDS

15.1 Retirement fund

At the end of 2016 and 2015, the following independent funds providing pension and other benefits were in existence:

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

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

	2016		2015	
	Working members (number)	Employer contributions (Rand million)	Working members (number)	Employer contributions (Rand million)
Kumba Iron Ore Selector Pension and Provident Funds	2,225	133	2,661	151
Iscor Employees Umbrella Provident Fund	3,124	106	4,854	127
Total	7,079	239	7,515	278

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

15.2 Medical funds

The group contributes to medical aid schemes for the benefit of permanent employees and their dependants. The contributions charged against income amounted to R151 million (2015: R177 million). The group has no obligation to fund post-retirement medical aid contributions for current or retired employees.

16. NET FINANCE GAINS

Rand million	2016	Restated 2015
Finance gains recognised in operating profit		
Net (gains)/losses on derivative financial instruments		
Realised	(420)	133
Unrealised	(570)	(35)
Net foreign currency (gains)/losses		
Realised	286	(907)
Unrealised	69	14
Fair value gains on investments held by the environmental trust	(22)	(18)
	(657)	(813)

17. NET FINANCE COSTS

Rand million	2016	Restated 2015
Interest expense – borrowings	581	857
Finance leases	–	4
Unwinding of discount on provisions	9	105
Capitalisation of borrowing costs	2	(113)
Finance costs	496	853
Interest received on cash and cash equivalents	(295)	(148)
Net finance costs	201	705

18. TAXATION

Rand million	2016	Restated 2015
Taxation expense		
Current taxation	4,560	1,013
Deferred taxation	(626)	267
	3,934	1,280
Charges/(release) to the income statement		
South African normal taxation		
Current year	3,571	791
Prior year	960	185
Foreign taxation		
Current year	29	37
Income taxation	4,560	1,013
Deferred taxation		
Current year	(619)	159
Prior year	(7)	108
	3,934	1,280
Reconciliation of taxation rates	%	%
Taxation as a percentage of profit before taxation	26.4	69.3
Taxation effect of:		
Disallowable expenditure*	(0.1)	(12.8)
Exempt income*	–	9.0
Rate difference between South African and foreign subsidiaries	7.1	12.5
Prior year (over)/underprovision	(6.3)	(14.6)
Equity-settled share-based payments	0.3	1.6
Unprovided tax losses – recognised/(unrecognised)	0.6	(37.0)
Standard taxation rate	28.0	28.0

* These percentages comprise many small amounts and are therefore aggregated.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

19. EARNINGS AND HEADLINE EARNINGS PER SHARE

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

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

Rand million	2016	2015
Profit attributable to equity holders of Kumba	8,621	469
Number of shares		
Weighted average number of ordinary shares in issue	319,520,658	320,817,364
Potential dilutive effect of outstanding share options*	1,642,865	–
Diluted weighted average number of ordinary shares in issue	321,163,523	320,817,364

* There was no dilution adjustment at 31 December 2015. The 1,075,676 share options previously granted under the various employee share incentive schemes had no dilutive impact for 2015.

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	2016		2015	
	Gross adjustment	Net attributable	Gross adjustment	Net attributable
Profit attributable to equity holders of Kumba	8,621	8,621	469	469
Impairment charge	4	2	5,978	3,337
Net loss on disposal or scrapping of property, plant and equipment (<i>this is after deducting a gain related to Thabazimbi of R5 million</i>)	186	101	9	2
Insurance proceeds received on items of property, plant and equipment written off in prior periods	–	–	(29)	(16)
	8,811	8,724	6,427	3,792
Taxation effect of adjustments	(54)		(1,644)	
Non-controlling interests in adjustments	(33)		(991)	
Headline earnings	8,724	8,724	3,792	3,792
Rand			2016	2015
Attributable earnings per share				
Basic			26.98	1.46
Diluted			26.84	1.46
Headline earnings per share				
Basic			27.30	11.82
Diluted			27.16	11.82

19. EARNINGS AND HEADLINE EARNINGS PER SHARE *continued*

Normalised earnings (unaudited)

Rand million	2016	2015
Reconciliation of normalised earnings		
Headline earnings attributable to owners of Kumba	8,724	3,792
Gain on lease receivable	–	(418)
(Recognition)/derecognition of deferred tax asset	(87)	801
	8,637	4,175
Taxation effect of adjustments	–	117
Non-controlling interests in adjustments	21	(115)
Normalised earnings	8,658	4,177
Normalised earnings (Rand per share)		
Basic	27.10	13.02
Diluted	26.96	13.02
The calculation of basic and diluted normalised earnings per share is based on the weighted average number of ordinary shares in issue as follows:		
Weighted average number of ordinary shares	319,520,658	320,817,364
Diluted weighted average number of ordinary shares	321,163,523	320,817,364

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

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

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

All remaining plant operations at the Thabazimbi mine ceased in 2016 following the decision, taken in 2015, to close the mine. The Thabazimbi operation was classified as a discontinued operation for the year ended 31 December 2016, and as a result, the comparative figures have been restated to show the discontinued operation separately from continuing operations. Analysis of the result of the Thabazimbi mine is as follows:

Results of discontinued operation

Rand million	2016	Restated 2015
Revenue	612	878
Operating expenses	(571)	(930)
Operating profit/(loss)	41	(52)
Net finance income	4	94
Profit before tax	45	42
Taxation	(42)	(132)
Profit/(loss) after income tax of discontinued operation	3	(90)
Attributable to the owners of Kumba	2	(69)
Attributable to the non-controlling interests	1	(21)
Profit/(loss) after income tax of discontinued operation	3	(90)
Cash flow from discontinued operation		
Net cash flows from operating activities	279	639
Cash flow from discontinued operation	279	639

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for the year ended 31 December

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

SIOC and ArcelorMittal SA have entered into an agreement to transfer Thabazimbi mine to ArcelorMittal SA. The agreement is expected to become effective in 2017, subject to certain conditions. Mining operations at Thabazimbi ceased in 2015 and processing operations ceased on 31 March 2016. The identified assets and liabilities of Thabazimbi mine (as indicated in the disclosure below) will be transferred at a nominal purchase consideration plus the assumed liabilities. If the conditions have not been satisfied by 28 April 2017 (or a later date agreed to by the companies), the agreement will lapse and SIOC will proceed with closure of the mine.

The requirements of IFRS 5 have been considered and as a result, the Thabazimbi mine assets and related liabilities that will transfer to ArcelorMittal SA have been presented separately as assets and liabilities of disposal group held for sale as at 31 December 2016. In addition, the results of Thabazimbi mine are presented as a discontinued operation for the year ended 31 December 2016. Comparative figures have been restated where required. An impairment loss of R4 million has been recognised related to the Thabazimbi mine assets that were not part of the lease with ArcelorMittal SA.

Assets and liabilities of disposal group held for sale

Rand million	Notes	2016
ASSETS		
Property, plant and equipment	2	8
Biological assets		18
Investments held by environmental trust	3	296
Long-term prepayments and other receivables	4	515
Inventories	5	5
Trade and other receivables	6	96
Total assets		938
LIABILITIES		
Non-current provisions	9	(822)
Current provisions	9	(114)
Total liabilities		936
Net carrying amount sold		2

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

Number of shares	2016	2015
Authorised		
Ordinary shares of R0.01 each	500,000,000	500,000,000
Issued		
Ordinary shares of R0.01 each	322,085,974	322,085,974
Reconciliation of issued shares		
Number of shares at beginning of year	322,085,974	322,085,974
Number of shares at end of year	322,085,974	322,085,974
Shares held in reserve reconciliation (unissued shares)		
Authorised shares at the beginning of year not issued	177,914,026	177,914,026
Unissued shares	177,914,026	177,914,026

No shares were issued during 2016 and 2015.

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

21. SHARE CAPITAL AND SHARE PREMIUM (INCLUDING TREASURY SHARES) continued

Reconciliation of treasury shares held

Number of shares	2016	2015
Number of treasury shares at beginning of year	1,109,732	1,533,346
Number of shares purchased	2,140,891	–
Shares issued to employees under the Long-Term Incentive Plan and Kumba Bonus Share Plan	(452,996)	(423,614)
Number of treasury shares at end of year	2,797,627	1,109,732

All treasury shares are held in respect of employee share schemes and are available for utilisation for the purposes of these schemes, as disclosed in note 22. At 31 December 2016, all treasury shares are held as conditional share awards under the Kumba Bonus Share Plan.

Rand million	2016	2015
Reconciliation of share capital and premium (net of treasury shares)		
Balance at beginning of year	(131)	(311)
Net movement in treasury shares under employee share incentive schemes	17	180
Purchase of treasury shares employee share incentive schemes*	(180)	–
Shares issued to employees under employee share incentive schemes	197	180
	(114)	(131)
Comprises		
Share capital	3	3
Share premium	364	364
Treasury shares	(481)	(498)

* The average price paid for the purchase of the shares in 2016 was R83.90 per share.

22. EQUITY-SETTLED SHARE-BASED PAYMENTS RESERVE

Rand million	Recognised	
	2016	2015
Balance at beginning of year	2,021	1,685
Equity-settled share-based payments expense	513	469
Employee share incentive schemes:		
– Envision phase 2	541	505
– Bonus Share Plan (BSP)	93	80
– Long-Term Incentive Plan (LTIP)	4	–
Non-controlling interests	(125)	(116)
Change in effective ownership of SIOC	(20)	–
Vesting of shares under employee share incentive schemes	(2,342)	(133)
Balance at end of year	172	2,021

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

The second phase of the employee share ownership scheme, Envision, unwound in November 2016. The Envision Trust's 3% shareholding in SIOC is worth ~R1.8 billion. In terms of the scheme rules, the Envision Trust was liable to pay the outstanding loan of ~R2.4 billion before making a payout to beneficiaries. As the value of the notional loan exceeded the value of the shares, no payout was made to employees. The only accounting impacts are:

- (1) The repurchase of SIOC's shares from the Envision Trust at a nominal amount of R3.71 (par value)
- (2) The increase in non-controlling interests in SIOC from 22.98% to 23.71%; and
- (3) The existing share-based payment reserve was transferred to retained earnings.

There are no further accounting consequences as a result of the unwind of Envision.

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23. NON-CONTROLLING INTERESTS

Rand million	2016	2015
Balance at beginning of year	5,847	6,237
Profit for the year	2,523	158
Exxaro	2,194	105
SIOC Community Development SPV	329	16
Envision	–	37
Dividends paid	–	(796)
Exxaro	–	(673)
SIOC Community Development SPV	–	(101)
Envision	–	(37)
Recoupment of Envision dividend*	–	15
Interest in movement in equity reserves	71	248
Equity-settled share-based payments reserve	125	116
Foreign currency translation reserve	(54)	58
Fair value reserve	–	74
Change in effective ownership of SIOC (Envision)	245	–
Balance at end of year	8,686	5,847

* The recoupment of the Envision dividend of R0 (2015: R15 million) arose from SIOC's participation as an income beneficiary in Envision.

24. CASH GENERATED FROM OPERATIONS

Rand million	2016	2015
Operating profit (including discontinued operation)	15,315	2,644
Adjusted for:		
Depreciation of property, plant and equipment	3,091	3,323
Movement in provisions	(92)	462
Unrealised foreign currency revaluations and fair value adjustments	(272)	(916)
Gain on lease receivable	(164)	–
Loss on disposal or scrapping of property, plant and equipment	186	9
Impairment loss	4	5,978
Dividend received from investments	(2)	–
Movement in non-current financial assets and prepayments	6	(16)
Equity-settled share-based payments expenses	638	585
Cash flows from operations	18,710	12,069
Working capital movements		
Decrease/(increase) in inventories	92	(168)
(Increase)/decrease in trade and other receivables	(1,970)	2,214
Increase/(decrease) in trade and other payables	386	(274)
	17,218	13,841

25. NET FINANCE COSTS PAID

Rand million	Notes	2016	2015
Net financing costs as per income statement		201	611
Finance income received by Thabazimbi disclosed as a discontinued operation		(4)	–
Capitalisation of borrowing costs	2	230	113
Adjusted for:			
Notional interest on provisions	9	(145)	(128)
Movement in interest payable and other non-cash movements		(8)	(29)
Movement in interest receivable		45	11
		319	578
Finance cost received		(254)	(254)
Finance cost paid		573	832
		319	578

26. TAXATION PAID

Rand million		2016	2015
Taxation liabilities at beginning of year		986	555
Income taxation per the income statement (refer to note 18)		4,560	1,013
Income taxation for the discontinued operation		(278)	–
Translation of taxation for foreign operations		1	12
Taxation liabilities at end of the year		(1,906)	(986)
Taxation paid per the cash flow statement		3,363	594
Comprising normal taxation:			
South Africa		3,363	594
		3,363	594

27. DIVIDENDS PAID

Rand million	Notes	2016	2015
Dividends paid to owners of Kumba		–	2,490
Recoupment of Envision dividend	23	–	15
Dividends per the statement of changes in equity		–	2,505
Dividends paid to non-controlling interests		–	811
Recoupment of Envision dividend	23	–	(15)
Dividends per the statement of changes in equity		–	796

28. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Rand million		2016	2015
Investment to expand operations		856	870
Investments to maintain operations		1,176	3,030
Deferred stripping costs capitalised		321	2,852
Additions per the cash flow statement		2,353	6,752

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29. GUARANTEES AND REGULATORY UPDATE

Rand million	2016	2015
Guarantees		
Environmental trust closure liability guarantees to the DMR	2,779	2,260
Guarantees provided to BNP Paribas	275	–
Operational guarantees to the DMR	26	21
	3,080	2,281

29.1 Environmental obligations

The group has issued financial guarantees in favour of the DMR in respect of its environmental rehabilitation and decommissioning obligations to the value of R2.8 billion (2015: R2.3 billion). Included in this amount are financial guarantees for the environmental rehabilitation and decommissioning obligations of the group in respect of Thabazimbi mine of R438 million (2015: R438 million). ArcelorMittal SA has guaranteed R429 million of this amount by means of bank guarantees issued in favour of SIOC.

As a result of the annual revision of closure costs a further shortfall of R311 million arose. Guarantees for the shortfall will be issued in due course. ArcelorMittal SA has guaranteed R300 million of this amount by means of bank guarantees issued in favour of SIOC.

29.2 Regulatory update

21.4% undivided share of the Sishen mine mineral rights

In October 2016, the DMR granted the residual 21.4% undivided share of the mining right for the Sishen mine to Kumba's subsidiary, SIOC following the completion of an internal appeal process, as prescribed by section 96 of the MPRDA.

As a result of the grant of the residual 21.4% undivided share, SIOC is now the sole and exclusive holder of the right to mine iron ore and quartzite at the Sishen mine. This residual mining right will be incorporated into the 78.6% Sishen mining right that SIOC successfully converted in 2009.

The consent to amend SIOC's mining right, by the inclusion of the residual 21.4% undivided share, is subject to various conditions. The conditions, where applicable, will ultimately form part of the conditions to the Sishen mining right. These include the requirement for the continuation of the EPP based supply agreement between SIOC and ArcelorMittal SA in its role as a strategic South African steel producer, as well as SIOC's continued support of skills development, research and development and initiatives to enable preferential procurement.

29.3 Mining Charter

Significant uncertainty remains around the draft Mining Charter III process which may impact future empowerment of mining companies and granting of new mining rights. The Chamber of Mines is actively engaging in order to obtain greater clarity as to the future requirements and Kumba continues to closely monitor these developments.

30. COMMITMENTS

Rand million	2016	2015
Operating lease commitments		
The future minimum lease payments under non-cancellable operating leases are as follows:		
Property		
Within 1 year	27	27
Between 1 and 2 years	52	52
2 to 5 years	5	30
	84	109
Plant and equipment		
Within 1 year	5	4
	5	4
Total operating lease commitments	89	113

Shipping commitments

Refer to note 33 for the group's shipping commitments to its fellow subsidiary Anglo American Marketing Limited.

31. CONTINGENT LIABILITIES

31.1 Settlement agreement with SARS

On 3 February 2017, the group concluded an agreement with SARS to settle a dispute relating to the assessments received for the years 2006 to 2010, and the tax treatment of the relevant issues in the years 2011 to 2015, inclusive, for a full and final total settlement amount of R2.5 billion.

Kumba had already provided for an amount of R1.5 billion in its annual financial statements for the financial years up to 2015, and an additional R1.0 billion was accounted for in 2016 in respect of this settlement agreement. The settlement will be paid in full in the first quarter of 2017, with appropriate adjustments made for current advance payments held on account.

As a responsible corporate citizen, the group's policy is to be tax compliant in all jurisdictions in which it operates.

31.2 Municipal rates and taxes

As previously reported, rates and taxes levied by the municipality at Sishen since 1 June 2014 were significantly higher than previously levied. Subsequent to year-end, the group settled the rates and taxes matter with the municipality at Sishen. The settlement is effective immediately and property values and the quantum of the rates and taxes will be adjusted retrospectively to the date of the publication of the 2014 valuation roll.

32. EVENTS AFTER THE REPORTING PERIOD

32.1 Dividends

No interim or final dividend was declared for the period under review.

32.2 Other

Besides the decision to early settle the loan of R4.5 billion as discussed in note 8 and the settlement agreements entered into with SARS and the municipality discussed in note 31, no further material events have occurred between the end of the reporting period and the date of this report, not otherwise dealt with in this report.

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33. RELATED-PARTY TRANSACTIONS

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

Shareholders

The principal shareholders of the Company are detailed under 'Shareholder analysis' on page 107.

Ultimate holding company

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

Subsidiaries of ultimate holding company

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

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

Holding company

ASAC holds a 69.71% interest in the Company (2015: 69.71%).

Fellow subsidiaries

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

Subsidiaries of the Company

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

Associates and joint ventures

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

Entities with significant influence over SIOC

Exxaro is SIOC's 20.62% (2015: 19.98%) Black Economic Empowerment shareholder. Details of dividends paid to Exxaro as well as its proportionate share of earnings for the year is detailed in note 23 of the group financial statements.

Special purpose entities

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

Entity	Nature of business
SIOC Employee Share Participation Scheme (Envision)	Investment vehicle
Kumba Iron Ore Rehabilitation Trust	Trust fund for mine closure
Kumba BSP Trust	Share incentive scheme administrator

Directors, senior management and prescribed officers

Details relating to directors' and the group's Executive Committee remuneration and shareholdings (including share options) are disclosed in the remuneration report on page 28.

33. RELATED-PARTY TRANSACTIONS continued**Material related-party transactions:**

Rand million	2016	2015
Purchase of goods and services and finance charges		
Subsidiaries of ultimate holding company ¹	3,114	3,709
Shipping services	3,107	3,642
Finance cost	7	67
Fellow subsidiaries	593	465
Corporate operations (including shared services)	406	325
Aircraft services	47	47
Research	140	93
Entities with significant influence over SIOC ²	97	95
	3,804	4,269
Sale of goods and services and finance income		
Subsidiaries of ultimate holding company ³		
Finance income	262	120
Services	34	47
	296	167
Amounts owing to related parties (after eliminating inter-company balances)		
Subsidiaries of ultimate holding company	282	766
Interest-bearing borrowings	–	205
Interest payable	–	1
Trade payables	282	560
Trade payables	15	32
	297	1,564
Amounts owing by related parties (after eliminating inter-company balances)		
Subsidiaries of ultimate holding company	9,480	2,909
Interest receivable	56	11
Cash and cash equivalents	9,421	2,898
Trade receivables	3	–
Fellow subsidiaries		
Associates and joint ventures		
Loans	111	111
	9,591	3,020

¹ Interest was accrued at an average rate of 8.16% (2015: 7.05%) on interest-bearing borrowings from AASAF.

² Goods were purchased from Exxaro and consisted mainly of ferrosilicon.

³ Interest was earned at an average rate of between 6.70% and 7.02% (2015: between 5.96% and 6.48%) on cash deposits held with AASAF.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

33. RELATED-PARTY TRANSACTIONS continued

Rand million	2016	2015
Shipping services commitments		
The future commitments under contracts of affreightment are as follows:		
Within 1 year	1,159	1,773
Between 1 and 2 years	1,393	1,702
2 to 5 years	4,136	4,670
More than 5 years	2,004	2,285
	8,692	10,430

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

Subsidiaries with significant non-controlling interests

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

These non-controlling interests are significant to the group and are held as follows:

Exxaro Resources (Pty) Ltd	20.62%
SIOC Community Development Trust	3.09%

The second phase of the employee share ownership scheme, Envision, unwound in November 2016. This reduced the shareholding that Envision held in SIOC from 3.09% to 0%.

Rand million	2016	2015
Profit for the year allocated to non-controlling interests	2,523	158
Accumulated non-controlling interests at 31 December	8,686	5,458

Summarised financial information of SIOC

Rand million	2016	2015
Income statement		
Revenue	33,638	29,728
Operating expenses	(23,069)	(29,059)
Operating profit	10,569	669
Net financing expense	(235)	(638)
Income from investments	2,381	2,234
Profit before taxation	12,715	2,265
Taxation	(4,010)	(445)
Total comprehensive income for the year	8,705	1,820
Balance sheet		
Non-current assets (including assets of disposal group classified as held for sale)	38,450	38,107
Current assets (including assets of disposal group classified as held for sale)	16,995	9,869
Total assets	55,445	47,976
Shareholders' equity	34,897	25,651
Non-current liabilities (including liabilities of disposal group classified as held for sale)	15,185	18,374
Current liabilities (including liabilities of disposal group classified as held for sale)	5,363	3,951
Total equity and liabilities	55,445	47,976
Cash flow statement		
Cash flows generated from operating activities	13,859	12,154
Cash flows utilised in investing activities	(2,343)	(6,690)
Cash flows utilised in financing activities	(4,862)	(4,689)
Net increase in cash and cash equivalents	6,654	775

34. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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for the year ended 31 December

34. FINANCIAL RISK MANAGEMENT *continued***34.1 Measurement basis of financial instruments**

Rand million	Notes	Fair value through profit or loss (FVTPL)		Amortised cost	Total
		Held for trading	Designated as FVTPL	Loans and receivables	
2016					
Financial assets					
Investments held by the environmental trust*	3	–	855	–	855
Trade receivables	6	–	–	4,038	4,038
Other receivables (excluding VAT and prepayments)*	4, 6	–	–	1,144	1,144
Cash and cash equivalents	7	–	–	10,665	10,665
Financial liabilities					
Interest-bearing borrowings	8	–	–	(4,500)	(4,500)
Trade payables	11	–	–	(2,959)	(2,959)
Other payables	11	–	–	(563)	(563)
		–	855	7,825	8,680
2015					
Financial assets					
Investments held by the environmental trust	3	–	818	–	818
Trade receivables	6	–	–	1,370	1,370
Other receivables (excluding VAT and prepayments)*	4, 6	–	–	1,021	1,021
Derivative financial instruments	6	38	–	–	38
Cash and cash equivalents	7	–	–	3,601	3,601
Financial liabilities					
Interest-bearing borrowings	8	–	–	(8,205)	(8,205)
Trade payables	11	–	–	(2,264)	(2,264)
Other payables	11	–	–	(875)	(875)
Derivative financial instruments	11	(1)	–	–	(1)
		37	818	(5,352)	(4,497)

* Includes amounts transferred to assets of disposal group classified as held for sale.

34. FINANCIAL RISK MANAGEMENT *continued*

34.2 Credit risk

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

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

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

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

34.2.2 Credit risk policy: Trade receivables

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

34.2.3 Credit risk exposure

Rand million	Notes	2016	2015
Trade receivables	6	4,038	1,370
Cash and cash equivalents	7	10,665	3,601
Investment made by the environmental trust*	3	855	818
Other receivables*	6	1,144	1,021
Guarantees issued in favour of the group		730	598
Derivatives	7	–	38

* Includes amounts transferred to assets of disposal group classified as held for sale.

Other receivables include the long-term and short-term, contractual liabilities of ArcelorMittal SA for the rehabilitation obligation of Thabazimbi mine (in 2015, this amount also included a guarantee from ArcelorMittal SA for retrenchment costs) and is secured by the guarantees issued by ArcelorMittal SA in favour of SIOC.

34.2.4 Collateral

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

34. FINANCIAL RISK MANAGEMENT continued

34.3 Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its financial obligations as they become due. The objectives of the group's liquidity risk management processes are to maintain adequate cash and credit facilities to meet all short-term obligations and ensure that the group can meet all known and forecast strategic commitments. The Kumba treasury function must maintain cash and committed facilities to meet at least 125% of all known and forecast commitments for the next 18 months using debt instruments as deemed appropriate. As a general rule, it is the group's policy that no security be provided. However, exceptions are allowed on a case by case basis where it is required for a transaction to proceed. Facilities creating security or encumbrances over assets need the prior consent of the group's Chief financial officer. The group's credit facilities are detailed under note 8. Kumba was not in breach of any of its financial covenants during the year. The group had undrawn committed long-term borrowing and uncommitted short-term facilities at 31 December 2016 of R12.5 billion and R8.3 billion respectively (2015: R8.5 billion and R8.3 billion respectively).

Financial guarantees issued to third parties need to be approved by the group Exco up to R500 million, and by the Board if the value exceeds R500 million. The group has not issued any financial guarantees in the current year (2015: Rnil).

Maturity profile of the group's financial liabilities

Rand million	Notes	Within 1 year	1 to 2 years	3 or more years	Total
2016					
Financial liabilities					
Interest-bearing borrowings	8	–	–	4,500	4,500
Trade payables	11	2,959	–	–	2,959
Other payables	11	563	–	–	563
		3,522	–	4,500	8,022
2015					
Financial liabilities					
Interest-bearing borrowings	8	205	–	8,000	8,205
Trade payables	11	2,264	–	–	2,264
Other payables	11	875	–	–	875
Derivative financial instruments	11	1	–	–	1
		3,345	–	8,000	11,345

34.4 Market risk

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

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

34.4.1 Foreign exchange risk

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

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

34. FINANCIAL RISK MANAGEMENT continued**34.4 Market risk** continued**34.4.1 Foreign exchange risk** continued

The average Rand/US\$ exchange rate for 2016 of US\$:R14.69 (2015: US\$:R12.76) 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\$:R13.73 (2015: US\$:R15.47) The group's financial instrument exposure to currency risk, excluding derivatives, is summarised below:

Rand million	Notes	Rand	US Dollar	Euro	Other
2016					
Financial assets					
Investments held by the environmental trust*	3	855	–	–	–
Trade receivables	6	356	3,682	–	–
Other receivables (excluding VAT and prepayments)*	4, 6	1,144	–	–	–
Cash and cash equivalents	7	7,675	2,984	4	2
Financial liabilities					
Interest-bearing borrowings	8	(4,500)	–	–	–
Trade and other payables	11	(3,127)	(391)	(4)	–
Net exposure		2,403	6,275	–	2
2015					
Financial assets					
Investments held by the environmental trust	3	818	–	–	–
Trade receivables	6	285	1,085	–	–
Other receivables (excluding VAT and prepayments)*	4, 6	1,021	–	–	–
Cash and cash equivalents	7	1,063	2,335	8	195
Financial liabilities					
Interest-bearing borrowings	8	(8,205)	–	–	–
Trade and other payables	11	(2,329)	(800)	(9)	(1)
Net exposure		(7,347)	2,620	(1)	194

* Includes amounts transferred to assets of disposal group classified as held for sale.

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, based on the net US Dollar denominated financial instrument balances at 31 December 2016. The analysis has been performed on the same basis for 2015.

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).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

CONTINUED

for the year ended 31 December

34. FINANCIAL RISK MANAGEMENT continued**34.4 Market risk** continued

Rand million	Impact on comprehensive income and shareholders' equity	
	Increase	Decrease
2016		
US Dollar	314	(314)
2015		
US Dollar	130	130

34.4.2 Interest rate risk

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

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

Sensitivity analysis

Changes in market interest rates affect the interest income or expense of floating rate financial instruments. A change in the market interest rate of 50 basis points, with all other variables held constant, would have increased/(decreased) profit or loss and equity by the amounts shown below, based on the net floating rate financial instrument balances at 31 December 2016. The analysis has been performed on the same basis for 2015.

Rand million	Impact on comprehensive income and shareholders' equity	
	Increase	Decrease
2016		
Floating interest rate instruments	(32)	32
2015		
Floating interest rate instruments	(44)	44

34.4.3 Commodity price risk

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

Certain of the group's sales are provisionally priced, meaning that the selling price is determined normally 30 to 180 days after delivery to the customer, based on quoted market prices stipulated in the contract, and as a result are susceptible to future price movements. As at 31 December 2016, R3,681 million (2015: R1,073 million) of the trade receivables balance are subject to price movements.

34. FINANCIAL RISK MANAGEMENT *continued*

34.5 Fair value estimation

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

Rand million	Note	Level 1 ¹	Level 2 ²	Level 3 ³
2016				
Investments held by the environmental trust*	3	855	–	–
Derivative financial assets	7	–	615	–
Derivative financial liabilities	7	–	(28)	–
		855	587	–
2015				
Investments held by the environmental trust*	3	818	–	–
Derivative financial assets	6	–	38	–
Derivative financial liabilities	6	–	(1)	–
		818	37	–

* Includes amounts transferred to assets of disposal group classified as held for sale.

¹ Level 1 fair value measurements are derived from unadjusted quoted prices in active markets for identical assets or liabilities.

² Level 2 fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly (ie derived from prices).

³ Level 3 fair value measurements are derived from valuation techniques that include inputs that are not based on observable market data.

Fair value gains and losses recognised in operating profit are disclosed in note 16 'Finance gains/(losses)'.

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

34.6 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	2016	2015
Long-term interest-bearing borrowings	4,500	8,000
Short-term interest-bearing borrowings	–	205
Total	4,500	8,205
Cash and cash equivalents	(10,665)	(3,601)
Net debt	(6,165)	4,604
Total equity	36,536	25,167

BALANCE SHEET

as at 31 December

Rand million	Notes	2016	2015
ASSETS			
Available-for-sale financial asset		8	5
Investments in subsidiaries	1	290	2,235
Deferred tax assets	2	1	1
Non-current assets		299	2,241
Other receivables		–	1
Cash and cash equivalents	3	191	370
Current assets		191	371
Total assets		490	2,612
EQUITY AND LIABILITIES			
Share capital and premium	4	368	368
Reserves		(47)	2,078
Total equity		321	2,446
Other payables		147	148
Current tax liabilities		22	18
Current liabilities		169	166
Total liabilities		169	166
Total equity and liabilities		490	2,612

INCOME STATEMENT

for the year ended 31 December

Rand million	Notes	2016	2015
Net operating expenses	5	(21)	(78)
Operating loss		(21)	(78)
Finance income		24	21
Income from investments	6	107	2,571
Profit before taxation		110	2,514
Taxation	7	(11)	(12)
Profit for the year		99	2,502
Total comprehensive income for the year		99	2,502

The Company did not have any non-owner changes in equity during the year other than the profit for the year, therefore no separate statement of other comprehensive income is presented for the years ended 31 December 2016 and 2015.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

Rand million	Share capital (note 4)	Share premium (note 4)	Equity-settled share-based payment reserve	Retained earnings	Total
Balance at 31 December 2014	3	365	1,767	(191)	1,393
Equity-settled share-based payments	–	–	500	–	500
Vesting of shares under employee share incentive schemes	–	–	(11)	1	(10)
Total comprehensive income for the year	–	–	–	2,502	2,502
Dividends paid	–	–	–	(2,490)	(2,490)
Balance at 31 December 2015	3	365	2,256	(178)	2,446
Equity-settled share-based payments	–	–	15	–	15
Vesting of shares under employee share incentive schemes	–	–	(9)	–	(9)
Total comprehensive income for the year	–	–	–	99	99
Unwind of Envision	–	–	(2,230)	–	(2,230)
Balance at 31 December 2016	3	365	32	(79)	321

CASH FLOW STATEMENT

for the year ended 31 December

Rand million	Notes	2016	2015
Cash flows from operating activities			
Cash generated by operations	8	(9)	18
Finance income		24	21
Income from investments	6	107	2,571
Taxation paid	9	(7)	(5)
Dividends paid		–	(2,490)
		115	115
Cash flows from investing activities			
Repayment of equity invested in subsidiary		–	3
Loans granted to subsidiaries		(285)	(42)
		(285)	(39)
Cash flows from financing activities			
Increase in loans from subsidiaries	1	–	37
Vesting of shares under employee share incentive schemes		(9)	(10)
		(9)	27
Net increase in cash and cash equivalents		(179)	103
Cash and cash equivalents at beginning of year		370	267
Cash and cash equivalents at end of year		191	370

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December

1. INVESTMENTS IN SUBSIDIARIES

Rand million	2016	2015
Reflected as non-current assets		
Shares at cost	3	7
Share-based payment expenditure*	–	2,226
Long-term loans to subsidiaries	287	2
Net investments in subsidiaries	290	2,235

* Arising from the accounting for share-based payment transactions in terms of IFRS 2. As a result of the unwind of Envision in the current year (refer to note 22 in the group financial statements), the existing share-based payment reserve, together with the investment in subsidiaries of R2,226 million) are eliminated in the current year as the scheme had no value.

Investments in subsidiaries are accounted for at cost.

The loans to and from the subsidiaries are interest bearing and do not have any repayment terms.

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

2. DEFERRED TAX ASSET

Rand million	2016	2015
Balance at beginning of year	1	1
Balance at end of year	1	1
Deferred tax asset attributable to the following temporary differences		
Leave pay accrual	1	1
Total deferred tax assets	1	1

3. CASH AND CASH EQUIVALENTS

Rand million	2016	2015
Cash	191	370
Currency analysis of cash and cash equivalents		
Rand	191	370

Credit risk

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

Fair value of cash and cash equivalents

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

4. SHARE CAPITAL AND SHARE PREMIUM

Number of shares	2016	2015
Authorised		
500,000,000 ordinary shares of R0.01 each	500,000,000	500,000,000
Issued		
Ordinary shares of R0.01 each	322,085,974	322,085,974
Reconciliation of issued shares		
Number of shares at beginning of year	322,085,974	322,085,974
Number of shares at end of year	322,085,974	322,085,974

For further detail refer to the group annual financial statements, note 21.

Rand million	2016	2015
Reconciliation of share capital and premium		
Share capital	3	5
Share premium	365	365
	368	368

5. OPERATING (EXPENSES)/INCOME

Rand million	2016	2015
Cost by nature		
Salaries and wages	(22)	(20)
Equity-settled share-based payments	(15)	5
Pension, medical and termination costs	(1)	(1)
General charges	(8)	21
Cost recoveries	25	20
Impairment of loans to KIO Exploration Liberia SARL	–	(103)
	(21)	(78)
The above costs are stated after including:		
Directors' remuneration (refer to remuneration report on page 28)	25	26
Executive directors		
Emoluments received as directors of the Company	14	15
Bonuses and cash incentives	5	5
Non-executive directors – emoluments as directors of the Company	6	6

6. INCOME FROM INVESTMENTS

Rand million	2016	2015
Dividends received from subsidiaries (refer to note 10)	107	2,571

7. TAXATION

Rand million	2016	2015
Charge to income		
SA normal tax		
Current year	11	12
Total	11	12
Reconciliation of taxation rates	%	%
Taxation as a percentage of profit before taxation	10.1	0.5
Taxation effect of:		
Disallowable expenditure*	(5.4)	(1.1)
Exempt income*	27.1	28.6
Equity-settled share-based payment	(3.8)	–
Standard tax rate	28.0	28.0

* These percentages comprise many small amounts and are therefore aggregated.

8. CASH GENERATED BY OPERATIONS

Rand million	2016	2015
Operating loss	(21)	(78)
Adjusted for:		
Impairment charges	–	103
Share-based payment expense	15	(5)
Working capital movements:		
Increase in financial assets	(3)	(3)
Decrease/(increase) in other receivables	1	(1)
(Decrease)/increase in other payables	(1)	2
Cash flows from operating activities	(9)	18

9. NORMAL TAXATION PAID

Rand million	2016	2015
Current tax liability at beginning of year	18	11
Amounts charged to the income statement	11	12
Amount paid during the year	(7)	(5)
Current tax liability at end of year	22	18

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

10. RELATED-PARTY TRANSACTIONS

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

Holding company

Anglo American plc is Kumba's ultimate holding company. The interest in the group is held through a 69.71% holding by Anglo South Africa Capital Proprietary Limited (2015: 69.71%).

Subsidiaries

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

Shareholders

The principal shareholders of the Company are detailed under 'Shareholder analysis' on page 107.

Material related-party transactions:

Rand million	2016	2015
Purchase of goods and services and finance charges		
Holding company ¹	*	*
Purchase of goods and services		
SIOC ²	28	24
Sale of goods and services and finance income		
SIOC ³	36	28
Interest on short-term deposit held with Anglo American SA Finance Limited (AASAF)	6	1
Amounts owing from/(to) related parties		
Short-term deposit held with Anglo American SA Finance Limited (AASAF) ⁴	–	205
SIOC	287	2
Main Street 576 (Pty) Ltd	–	–
Kumba Investment Holdings (Pty) Ltd	–	–
Dividends paid to/(by) Kumba		
Kumba International BV	107	–
SIOC	–	2 571
Holding company	–	(1 736)

* Value is less than R1 million.

¹ Goods and services comprise directors' fees paid directly to Anglo Operations Limited for A Sangqu and N Viljoen.

² Goods and services purchased comprise payroll-related costs recovered by SIOC.

³ Goods and services comprise a management fee charged by Kumba to SIOC and finance income earned on excess cash loaned by SIOC.

⁴ The AASAF loan bore interest at 6.84% (2015: 6.48%). This loan was settled during the year.

11. POST-BALANCE SHEET EVENTS

No dividend was declared in the period.

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

ANNEXURE 1:

INVESTMENTS IN SUBSIDIARIES

for the year ended 31 December

Rand '000	Country of incorporation ¹	Principal place of business ¹	Nature of business ²	Percentage holding	Nominal issued capital R	Investments at cost		Loans to/(from) subsidiaries	
						2016	2015	2016	2015
Direct investments									
Sishen Iron Ore Company Proprietary Limited	RSA	RSA	A	76%	100	3,009	3,009	286,529	2,465
KIO Investment Holdings Proprietary Limited**	RSA	RSA	D	100%	1,000	-	-	-	**
Kumba International BV	NE	NE	B	100%	132,680	276	276	-	-
Total investments in subsidiaries						3,285	3,285	286,529	2,465

** Loan impaired 2015.

Indirect subsidiaries

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

Special purpose entities³

	Country of incorporation ¹	Principal place of business ¹	Nature of business ²	Percentage holding
Kumba Iron Ore Rehabilitation Trust ⁴	RSA	RSA	F	100%
Kumba BSP Trust ⁴	RSA	RSA	G	100%

¹ RSA – South Africa, NE – Netherlands, SWL – Switzerland, HK – Hong Kong, LUX – Luxembourg, SNG – Singapore.² A – Mining, B – Iron ore marketing and sales, C – Exploration, D – Investment holding, E – Dormant, F – Mine closure fund, G – Share incentive scheme administrator.³ Controlled by Kumba.⁴ The trusts have a year end of 28 February as it is a requirement from SARS. Where the financial year ends are not co-terminous with that of the group, financial information has been obtained from published information or management accounts as appropriate.

ANNEXURE 2:

INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS

for the year ended 31 December

Rand '000	Country of incorporation ¹	Principal place of business ¹	Nature of business ²	Number of shares held	Percentage holding	Investment at cost	Group loan balance		Company loan balance	
							2016	2015	2016	2015
ASSOCIATES										
Unlisted										
Manganore Iron Mining Limited	RSA	RSA	B	25,000	50%	50	-	-	-	-
INCORPORATED JOINT VENTURES										
Unlisted										
Polokwane Iron Ore Company Proprietary Limited	RSA	RSA	A	4,000	50%	3,740	110,909	110,848	-	-
Anglo American Kumba Exploration Liberia Limited*	LIB	LIB	A	25,000	50%	26	-	-	-	-
						3,766	110,909	110,848	-	-

* Loan impaired during financial year.

The financial year-end for Manganore Iron Ore Mining Limited is 30 June, which is aligned with the year-end of the controlling shareholder. 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.

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

ANNEXURE 3:

EQUITY-SETTLED SHARE-BASED PAYMENT SCHEMES

for the year ended 31 December

EMPLOYEE SHARE INCENTIVE SCHEMES

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

- Envision (employees participated in this scheme until it unwound in November 2016)
- Bonus Share Plan
- Long-Term Incentive Plan (executive directors)

(1) ENVISION

Description of scheme

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 SIOC in South Africa.

The acquisition of the interest in SIOC by Envision was funded by SIOC company in terms of a contribution agreement. Envision was structured as a 10-year scheme, divided into two capital appreciation periods. The first capital appreciation period vested on 17 November 2011. The second capital appreciation period commenced on 10 November 2011 with the issue of 3.09% in the share capital of SIOC to the Envision trust, on the same terms and conditions as the first phase.

Employee beneficiaries of Envision were entitled to receive 50% of any dividend received by Envision in respect of its underlying shareholding in SIOC and a distribution at the end of the second term (five years) of the SIOC shares remaining in Envision after the repurchase of certain SIOC shares in terms of the subscription agreement. Each employee will be entitled to receive Kumba shares which were swapped for the SIOC shares using the specific price earnings ratio of Kumba and the most recent earnings of SIOC at the end of the second term, based on the vesting formula contained in the scheme agreement.

In November 2016, on expiry of the second term, the loan amount outstanding exceeded the value of the shares resulting in no value or payout to employees. The scheme was unwound and no replacement scheme was entered into.

MOVEMENT IN THE NUMBER OF SHARE AWARDS GRANTED

	Number of share options (Phase 2)	Weighted average option price (Rand)
Balance at beginning of year	24,703,702	22.84
Share options issued	51,244	22.84
Share options forfeited	(3,152,469)	22.84
Share options vested	(21,602,477)	22.84
Balance at 31 December 2016	–	22.84
Balance at beginning of year	25,674,793	22.84
Share options issued	361,463	22.84
Share options forfeited	(1,332,554)	22.84
Balance at 31 December 2015	24,703,702	22.84

ANNEXURE 3:

EQUITY SETTLED SHARE-BASED PAYMENT SCHEMES CONTINUED

for the year ended 31 December

(2) BONUS SHARE PLAN (BSP)

Description of scheme

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

- A payment of an annual cash bonus
- A forfeitable award of shares linked to the participant's annual cash bonus award known as bonus shares

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

MOVEMENT IN THE NUMBER OF SHARE AWARDS GRANTED

	2016 award	2015 award	2014 award	2013 award	2012 award
Balance at beginning of year	–	412,351	333,133	191,725	27,823
Bonus shares awarded	2,135,110	–	–	–	–
Awards forfeited	(33,097)	(7,638)	(16,204)	–	–
Awards exercised ¹	(119,414)	(27,526)	(37,977)	(3,122)	–
Awards exercised on vesting	–	(7,821)	(66,149)	(155,320)	(27,823)
Balance at 31 December 2016	1,982,599	369,366	212,803	33,283	–
Balance at beginning of year			447,465	239,704	209,156
Bonus shares awarded		432,511	–	–	–
Awards exercised ¹		(20,160)	(114,332)	(47,979)	–
Awards exercised on vesting		–	–	–	(181,333)
Balance at 31 December 2015		412,351	333,133	191,725	27,823

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

	Number of awards	Expiry date
Vesting period of awards granted		
Less than 1 year	246,086	2017
1 to 2 years	361,594	2018
2 to 5 years	1,990,371	2019 – 2021

VALUATION OF SCHEME

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

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

	2016 award	2015 award	2014 award	2013 award	2012 award
Fair value assumptions					
Share price on date of grant (Rand)	84.39	227.26	420.00	550.68	452.45
Expected share option life (years)	3	3	3	3	3
Expected dividend yield (%)	–	–	5.25	5.25	5.25

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.

(3) LONG-TERM INCENTIVE PLAN (LTIP)

Description of scheme

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

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

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

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

The main intention of the LTIP is to settle the benefits by delivering 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 share appreciation rights 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.

MOVEMENT IN THE NUMBER OF CONDITIONAL AWARDS GRANTED

	Number of conditional awards			
	2016 award	2015 award	2014 award	2013 award
Balance at beginning of year	71,228	71,228	41,364	25,875
Conditional awards issued	432,672	–	–	(12,938)
Conditional awards forfeited	–	–	–	(12,937)
Balance at 31 December 2016	503,900	71,228	41,364	–
Balance at beginning of year		71,228	41,364	25,875
Balance at 31 December 2015		71,228	41,364	25,875

	Number of conditional awards	Expiry date
Vesting period of conditional awards granted		
Less than 1 year	41,364	2017
1 to 2 years	71,228	2018
2 to 5 years	503,900	2019

VALUATION OF SCHEME

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

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

	2016 award	2015 award	2014 award	2013 award	2012 award
Fair value assumptions					
Share price on date of grant (Rand)	84.39	227.26	420.00	550.68	527.00
Annualised expected volatility (%)	50.00	50.00	30.37	30.60	34.21
Expected share option life (years)	3.00	3.00	3.00	3.00	3.00
Expected dividend yield (%)	–	–	5.25	5.25	5.25
Risk-free interest rate (%)	7.48	7.48	7.40	6.16	6.39

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

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

ANNEXURE 4: NEW AND AMENDED STANDARDS NOT YET ADOPTED BY THE GROUP

A number of new standards and amendments to standards and interpretations are in issue but are not effective for annual periods beginning on 1 January 2016 and have not been applied in preparing these consolidated financial statements. The group is in the process of assessing the potential impact.

AMENDMENTS TO IAS 7 STATEMENT OF CASH FLOWS ON DISCLOSURE INITIATIVE

These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. This amendment is effective for periods beginning on or after 1 January 2017.

The group will likely include a new disclosure explaining the movement in the cash flows from financing activities between the current reporting period and the comparative period.

AMENDMENTS TO IAS 12 INCOME TAXES – RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALISED LOSSES

These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. This amendment is effective for periods beginning on or after 1 January 2017.

It is not expected that this amendment will have any impact on the financial statements.

AMENDMENTS TO IFRS 2 SHARE-BASED PAYMENTS – CLARIFICATION ON HOW TO ACCOUNT FOR CERTAIN TYPES OF SHARE-BASED PAYMENT TRANSACTIONS

This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash settled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. This amendment is effective for periods beginning on or after 1 January 2018.

It is not expected that this amendment will have any impact on the financial statements.

AMENDMENTS TO IFRS 4 INSURANCE CONTRACTS – IMPLEMENTATION OF IFRS 9 FINANCIAL INSTRUMENTS

These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

- give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued
- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard IAS 39. This amendment is effective for periods beginning on or after 1 January 2018

This amendment will have no impact on the financial statements.

AMENDMENTS TO IAS 40 INVESTMENT PROPERTY – TRANSFERS OF INVESTMENT PROPERTY

These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence. This amendment is effective for periods beginning on or after 1 January 2018.

It is not expected that this amendment will have any impact on the financial statements.

ANNUAL IMPROVEMENTS TO IFRS 2014–2016

Amendments to IFRS 1 *First-time Adoption of IFRS*

This amendment entails the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018. This amendment is effective for periods beginning on or after 1 January 2018.

It is not expected that this amendment will have any impact on the financial statements.

Amendments to IFRS 12 *Disclosure of Interests in Other Entities*

The amendment clarifies the scope of the standard. This amendment is effective for periods beginning on or after 1 January 2017. It is not expected that this amendment will have any impact on the financial statements.

Amendments to IAS 28 *Investments in Associates and Joint Ventures*

The amendment provides guidance on measuring an associate or joint venture at fair value. This amendment is effective for periods beginning on or after 1 January 2018.

It is not expected that this amendment will have any impact on the financial statements.

IFRS 9 *Financial Instruments 2009*

IFRS 9 (2010) supersedes IFRS 9 issued in 2009. However, for annual periods beginning before 1 January 2015, an entity may elect to apply IFRS 9 issued in 2009 instead of applying IFRS 9 (2010).

IFRS 9 *Financial Instruments 2014 (complete)*

This standard supersedes IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013). However, for annual periods beginning before 1 January 2018, an entity may elect to apply those earlier versions of IFRS 9 instead of applying this standard if, and only if, the entity's relevant date of initial application is before 1 February 2015.

The group is assessing the impact of IFRS 9 on the financial statements. The full impact is uncertain at year end.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 specifies how and when an entity will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. An entity shall apply this standard for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

The group is assessing the impact of IFRS 15 on the financial statements. The full impact is uncertain at year-end.

Amendments to IFRS 15 – Clarification on IFRS 15

These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard. This amendment is effective for periods beginning on or after 1 January 2018.

The group is assessing the impact of IFRS 15 on the financial statements. The full impact is uncertain at year-end.

ANNEXURE 4:

NEW AND AMENDED STANDARDS NOT YET ADOPTED BY THE GROUP

CONTINUED

IFRS 16 Leases

This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular.

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This standard is effective for periods beginning on or after 1 January 2018 with earlier application permitted if IFRS 15 *Revenue from Contracts with Customers*, is also applied.

The group is assessing the impact of IFRS 16 on the financial statements. The full impact is uncertain at year-end.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice. This interpretation is effective for periods beginning on or after 1 January 2018.

The group is assessing the impact of IFRIC 22 on the financial statements. The full impact is uncertain at year-end.

SHAREHOLDER ANALYSIS

Register date: 30 December 2016

Issued share capital: 322,085,974

	Number of shareholdings	%	Number of shares	%
SHAREHOLDER SPREAD				
1 – 1,000 shares	14,063	88.75	2,922,188	0.91
1,001 – 10,000 shares	1,394	8.80	4,084,054	1.27
10,001 – 100,000 shares	312	1.97	8,831,409	2.74
100,001 – 1,000,000 shares	64	0.40	19,164,089	5.95
1,000,001 shares and over	12	0.08	287,084,234	89.13
Totals	15,845	100.00	322,085,974	100.00
DISTRIBUTION OF SHAREHOLDERS				
Private companies	228	1.43	225,088,795	69.88
Government	1	0.01	41,498,615	12.88
Retirement funds	92	0.57	8,841,986	2.75
Banks/brokers	182	1.15	25,414,046	7.89
Mutual funds	144	0.91	8,783,986	2.73
Public companies	12	0.08	616,101	0.19
Insurance companies	30	0.19	1,317,494	0.41
Share trusts	1	0.01	202,373	0.06
Individuals	13,878	87.59	8,801,088	2.73
Trusts	1,073	6.77	1,221,061	0.38
Close corporations	110	0.69	166,212	0.05
Endowment funds	14	0.09	53,010	0.02
Other corporations	66	0.42	63,582	0.03
Medical schemes	10	0.06	9,499	0.00
Investment companies	4	0.03	8,126	0.00
Totals	15,845	100.00	322,085,974	100.00
PUBLIC/NON-PUBLIC SHAREHOLDERS				
Non-public shareholders	15	0.09	268,039,026	83.22
Directors, associates and Exco of the Company	10	0.06	411,457	0.13
Strategic holdings	2	0.01	266,034,530	82.60
Related holdings	3	0.02	1,593,039	0.49
Public shareholders¹	15,830	99.91	54,046,948	16.78
Totals	15,845	100.00	322,085,974	100.00
BENEFICIAL SHAREHOLDERS HOLDING 2% OR MORE				
Anglo American			224,535,915	69.71
Industrial Development Corporation of South Africa Limited			41,498,615	12.88
Government Employees Pension Fund			7,882,259	2.45
Totals			273,916,789	85.04

¹ Included in this shareholding is 2,201,396 shares held by employees under the bonus share scheme, which have been allocated, but not yet vested.

SHAREHOLDER ANALYSIS CONTINUED

Register date: 30 December 2016

Issued share capital: 322,085,974

BREAKDOWN OF NON-PUBLIC HOLDINGS		
	Number of shares	%
DIRECTORS, ASSOCIATES AND EXCO OF THE COMPANY		
FT Kotzee (Chief financial officer)	62,670	0.02
FT Kotzee*	62,670	0.02
TM Mkhwanazi (Chief executive)	0	0.00
TM Mkhwanazi	0	0.00
GM Mc Gavigan	47,685	0.01
GM Mc Gavigan*	47,685	0.01
DD Mokgatle	428	0.00
LA Mokgatle	428	0.00
A Parboosing	21,944	0.01
A Parboosing*	21,944	0.01
B Mawasha	113,683	0.04
B Mawasha*	113,683	0.04
SV Tyobeka	63,644	0.02
SV Tyobeka*	58,968	0.02
SV Tyobeka	4,676	0.00
Y Mfolo	52,605	0.02
Y Mfolo*	52,605	0.02
LLA Mgadzah	48,798	0.01
LLA Mgadzah*	38,244	0.01
LLA Mgadzah	10,554	0.00
Totals	411,457	0.13
STRATEGIC HOLDINGS		
Anglo South Africa Capital Propriety limited	224,535,915	69.71
Industrial Development Corporation of South Africa Limited	41,498,615	12.88
Totals	266,034,530	82.59
RELATED HOLDINGS		
Mercantile Shareholder Nominees – Exxaro	1,301,681	0.40
Mercantile Shareholder Nominees – Exxaro	1,301,681	0.40
Kumba Bonus Share Plan Trust	202,373	0.06
Kumba Bonus Share Plan Trust	202,373	0.06
Exxaro Resources Limited (No 8)	88,985	0.03
Exxaro Resources Limited (No 8)	88,985	0.03
Totals	1,593,039	0.49
BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 2% OR MORE		
	Number of shares	%
BENEFICIAL SHAREHOLDERS		
Anglo American	224,535,915	69.71
Anglo South Africa Capital Proprietary Limited	224,535,915	69.71
Industrial Development Corporation of South Africa Limited	41,498,615	12.88
Industrial Development Corporation of South Africa Limited	41,498,615	12.88
Government Employees Pension Fund	7,882,259	2.45
Government Employees Pension Fund – PIC	3,715,450	1.16
Government Employees Pension Fund – PIC (Sec Lending)	3,390,000	1.05
Government Employees Pension Fund – Prudential Investment Managers	461,709	0.14
Government Employees Pension Fund – Sentio Capital Management	315,100	0.10
Totals	273,916,789	85.04

* Shares awarded under the bonus share scheme that have not vested.

ADMINISTRATION

COMPANY REGISTRATION NUMBER

2005/015852/06

JSE share code: KIO

ISIN code: ZAE000085346

COMPANY SECRETARY AND REGISTERED OFFICE

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Registered Auditors

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SPONSOR

RAND MERCHANT BANK

(A division of FirstRand Bank Limited)

Registration number: 1929/001225/06

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FORWARD-LOOKING STATEMENTS

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




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