KUMBA IRON ORE LIMITED
ANNUAL FINANCIAL STATEMENTS 2017

BUILDING ON FIRM FOUNDATIONS
DELIVERING A SUSTAINABLE FUTURE
ENHANCING OUTCOMES

AngloAmerican

Real Mining. Real People. Real Difference.

OUR APPROACH TO REPORTING

ENHANCING VALUE

Front cover
1. A view of the stacker and reclaimer at the stockyard in Kolomela mine.
2. Rudolph Snyders, plant operator; Jaco Malgas, boilermaker and Tumelo Magdane, plater doing plant maintenance at the Kolomela mine's dust screening plant.
3. Lester Engelbrecht, foreman; Saul Mofammere, foreman; and Daleen Boyder, mine overseer doing a safety declaration at Leeuwfontein pit at Kolomela mine.

Back cover
4. JP Thompson conducting Visible Felt Leadership (VFL) with employees at the stacker reclaimer in Sishen mine.
5. Mmoloki Ogotserg, training instructor at the Tshipi skills development centre in Sishen mine teaching students, Tsholofelo Moganedi, Masego Josop, Pelonomi Masigo and Lenogang Medlipe bricklaying skills.
6. Sibongile Makganye, a pit geologist conducting a routine inspection at the Welgevonden farm house situated near the Kolomela mine.

AUDITED ANNUAL FINANCIAL STATEMENTS

For more information see
www.angloamericankumba.com

Directors' declaration
The Kumba Iron Ore Limited (Kumba or the Company or the group) Board, assisted by the Audit Committee, is ultimately responsible for the preparation, fair presentation and integrity of the audited annual financial statements and related financial information of the group, as contained in this report, the Annual Financial Statements 2017. The Board of directors confirm that they have collectively reviewed the content of this report and approved it at its meeting on 8 March 2018, for presentation to shareholders at the next annual general meeting on 11 May 2018. The Annual Financial Statements 2017 have been prepared under the supervision of BA Mazarura CA(SA), Chief financial officer.

Navigating our 2017 reports

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

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

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

ORE 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 Code – 2016 edition).

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

KEY FEATURES

ZERO
FATALITIES

6% INCREASE IN SALES VOLUMES
44.9 MT

AN AVERAGE FOB EXPORT REALISED PRICE OF US$71/TONNE

EBITDA OF R19.6 BILLION, A 6% INCREASE

ATTRIBUTABLE FREE CASH FLOW OF R12.3 BILLION, UP 10%

HEADLINE EARNINGS OF R30.47 PER SHARE, A 12% INCREASE

FINAL CASH DIVIDEND OF R15 PER SHARE, WITH TOTAL CASH DIVIDEND OF R30.97 PER SHARE

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FINANCIAL REVIEW

ENHANCING VALUE

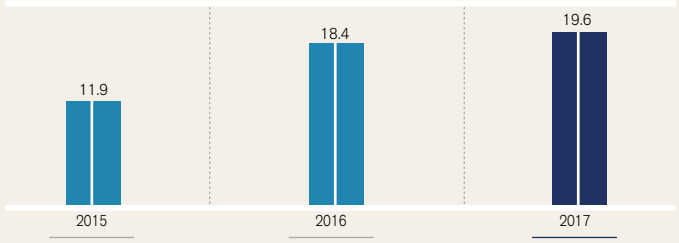
- **EBITDA of R19.6 billion, a 6% increase**
- **Attributable free cash flow of R12.3 billion, up 10%**
- **Headline earnings of R9.7 billion, R30.47 per share, a 12% increase**
- **An average realised FOB export price of US$71/tonne**
- **Final cash dividend of R15 per share, with total cash dividend of R30.97 per share**

BOTHWELL MAZARURA – CHIEF FINANCIAL OFFICER

For the year ended 31 December 2017, Kumba reported a strong set of results underpinned by solid overall operational performance. Improvements in operational efficiencies and productivity drove the increased product volume which together with strict cost discipline had a positive impact on unit costs, and diluted the effects of cost escalation. The increased production also resulted in higher sales volumes, which coupled with higher realised FOB export prices for the year, led to revenue increasing by 14% over 2016 despite the impact of a stronger Rand. The subsequently higher profitability and stronger cash flow conversion allowed the business to provide for investment in growth, reinstate dividend payments and retain a resilient balance sheet.

EBITDA[1] Rand billion

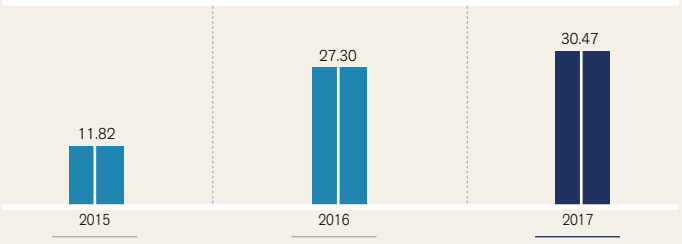
R19.6 billion



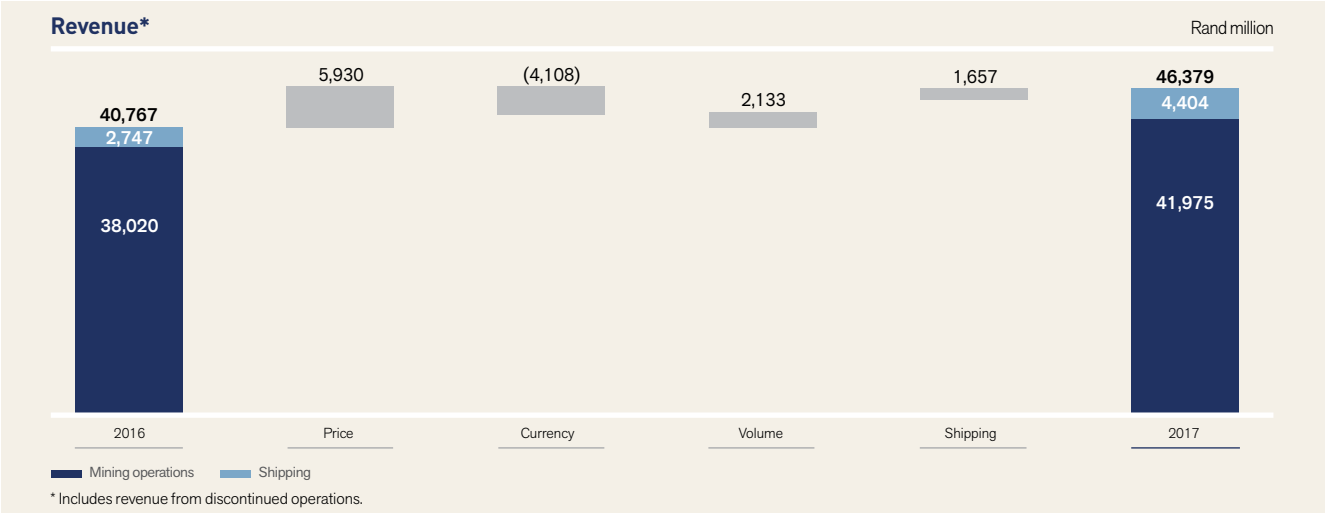
[1] Including discontinued operations, excluding impairment reversal/charge.

Headline earnings per share Rand per share

R30.47 per share



REVENUE GROWTH FROM STRONGER PRICES AND HIGHER VOLUMES

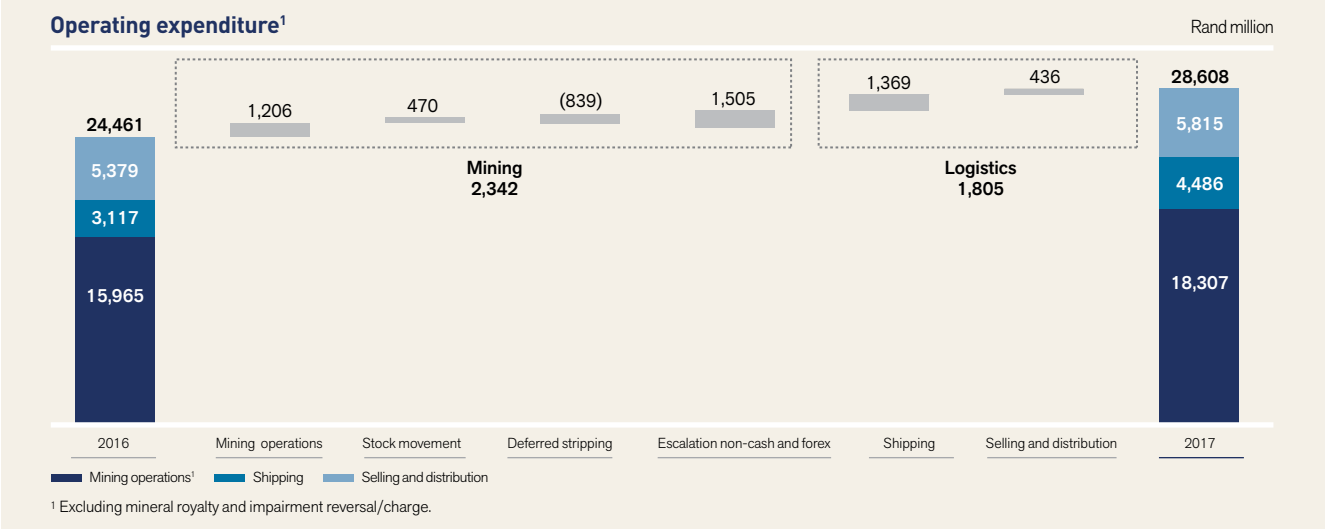


The group generated strong revenue growth of 14% to R46.4 billion, including R42 billion from mining and R4.4 billion from shipping operations. Growth was primarily driven by the 11% rise in average realised FOB export prices, the 2.4 Mt growth in total sales volumes, and revenue from shipping operations adding R1.7 billion. This was partially offset by the 9% strengthening of the Rand against the US Dollar which impacted revenue by R4.1 billion.

Higher production levels in 2017 resulted in a 7% increase in export sales to 41.6 Mt (including 0.6 Mt sourced from third-party producers). Export sales to China accounted for 63% of the Company's total exports, slightly down from 64% in 2016. Exports to Japan and South Korea remained at around 17% of the total, while sales to Europe and MENA increased to 18%.

Domestic sales of 3.3 Mt were 0.1 Mt lower than 2016, as a result of reduced ArcelorMittal SA off-take from Sishen. Sales to ArcelorMittal SA were made under the Export Parity Price in accordance with the supply agreement.

OPERATING EXPENDITURE DRIVEN BY VOLUME GROWTH



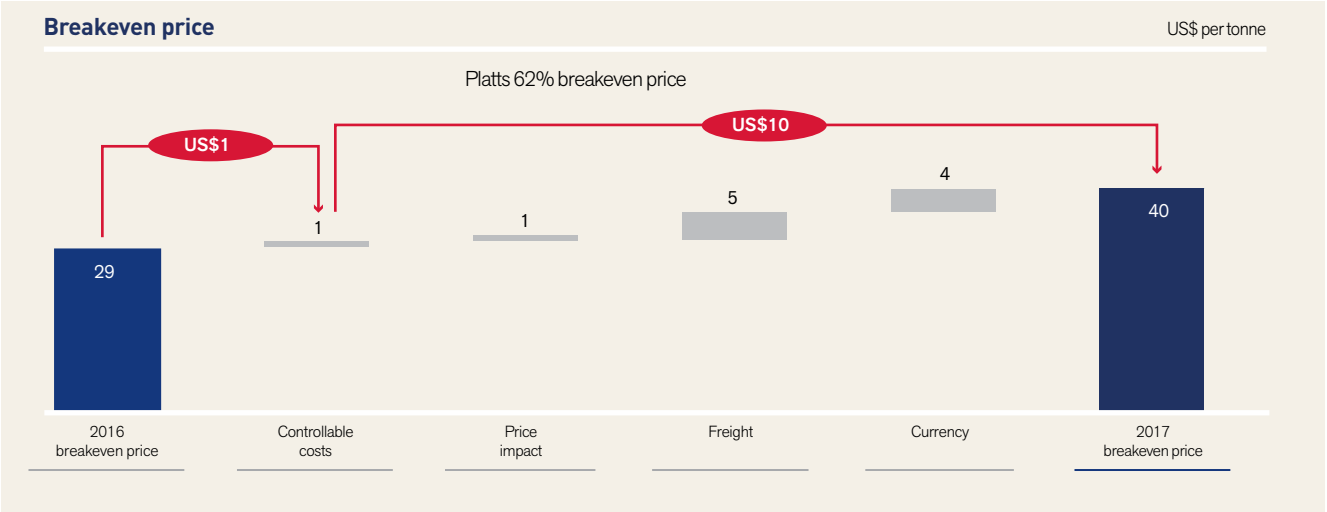
FINANCIAL REVIEW CONTINUED

Operating expenditure (excluding the reversal of the Sishen impairment) (please refer to page 51 for details on the impairment review) increased by 17% to R29.8 billion due to total mining and production volumes increasing by 12% and 8%, respectively, together with inflationary pressure on input costs. This was partially offset by savings in mining costs from improved productivity, a reduction in overhead costs and less input from mining contractors.

Selling and distribution costs increased 3% in real terms, driven by the 6% growth in sales volumes railed. Overall, higher freight costs of R1.4 billion were incurred due to the average Platts freight rate on the Saldanha-Qingdao route rising to US$12/tonne. Spot freight rates averaged US$11.54/tonne for 2017, a 66% increase from the US$6.95/tonne for 2016.

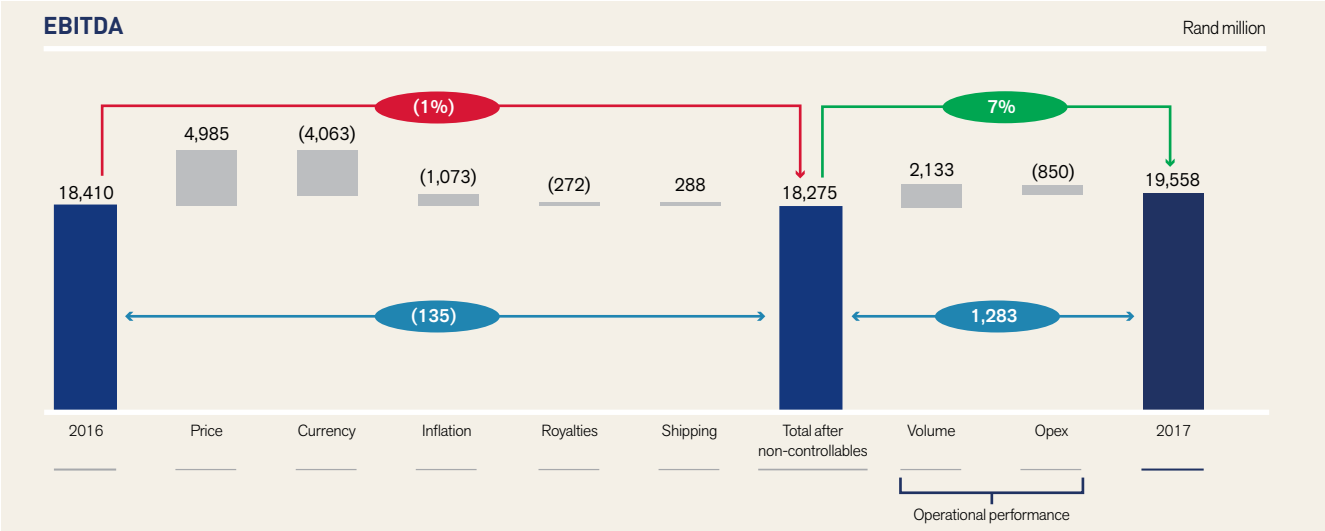
Cost savings were achieved through continued strict management of overheads and on-mine costs. This, together with higher production, resulted in unit costs remaining below the guidance given in July 2017.

BREAKEVEN PRICE INFLUENCED BY NON-CONTROLLABLES



Kumba achieved an average cash breakeven price of US$40/tonne (CFR China), US$11/tonne higher than the average of US$29/tonne for 2016. Increases in controllable costs were contained at US$1/tonne, as mining-related inflation and higher mining volumes from a rising stripping ratio were partially offset by production gains and operating efficiency improvements. Non-controllable costs rose by US$10/tonne as a result of lower market premiums (US$1/tonne), higher freight rates (US$5 tonne) and the stronger currency (US$4/tonne).

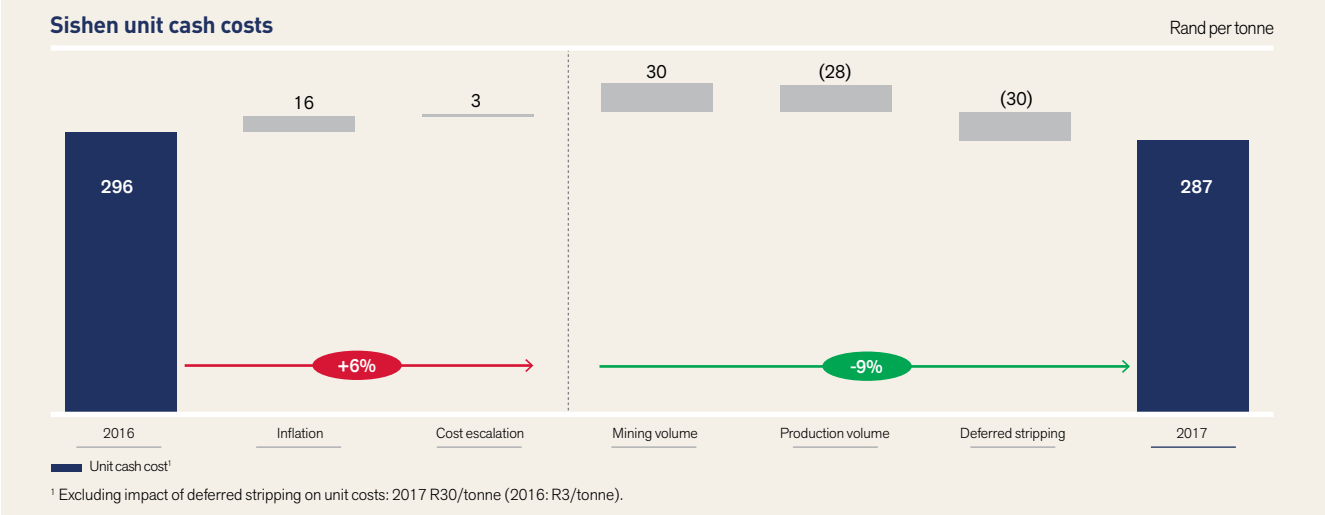
EBITDA IMPROVEMENT DUE TO EFFICIENCY AND PRODUCTIVITY GAINS



EBITDA of R19.6 billion was 6% higher, reflecting a 6% improvement in total sales volumes and an 11% increase in the average realised FOB export iron ore price to US$71/tonne (2016: US$64/tonne). This was partially offset by cost inflation, including higher freight rates and a stronger currency.

UNIT CASH COSTS CONTAINED

Sishen mine: improved unit cost through operating efficiencies



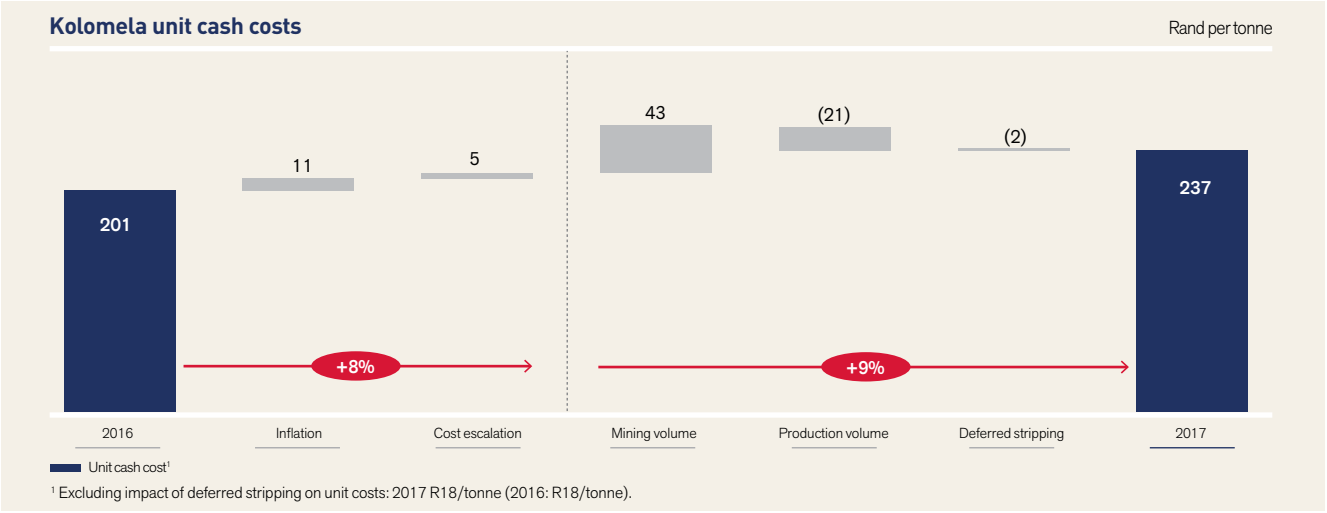
[1] Excluding impact of deferred stripping on unit costs: 2017 R30/tonne (2016: R3/tonne).

Sishen's unit cash costs improved, decreasing by 3% to R287/tonne (2016: R296/tonne) as a result of higher production volumes and cost savings from continued efficiencies in operations, partially offset by mining-related cost escalations and the higher stripping ratio of 4.3 (2016: 3.3) which increased waste volumes by 18% to 161.7 Mt for 2017.

For 2018 Kumba is aiming to keep Sishen's unit cash cost, net of capitalisation of deferred stripping, in the range of R295/tonne to R305/tonne.

FINANCIAL REVIEW CONTINUED

Kolomela mine: unit cost driven by plant feedstock



[1] Excluding impact of deferred stripping on unit costs: 2017 R18/tonne (2016: R18/tonne).

At Kolomela mine, unit cash costs increased by R36/tonne to R237/tonne (2016: R201/tonne). Higher mining volumes, above inflation increases in fuel prices and costs incurred for the crushing of feedstock material for the modular plant, all contributed to the increase in costs. While the modular plant costs will continue to be incurred in the future, this is now in the cost base.

For 2018, the target is to maintain Kolomela's unit cash cost, net of capitalisation of deferred stripping, in the range of R240/tonne to R250/tonne.

TAXATION

The amount of tax paid and Kumba's management of its tax affairs is a demonstration of the value of its contribution to government and the group's host communities.

The approach to tax is aligned with the principles of business integrity embedded in the Kumba Code of Conduct, our long-term business strategy and holding company Anglo American plc's vision, to be 'Partners in the Future'. Kumba supports the principles of transparency and active and constructive engagement with all stakeholders. Increased transparency allows host communities to understand the amount of income generated from mining activities in the region.

Kumba's approach to tax management includes the following:

- Respect for the law in each of the jurisdictions in which Kumba operates, complying with the legal obligation for tax, filing of tax returns on time with full and adequate disclosure of all relevant matters, and paying taxes timeously.
- Not taking an aggressive approach to tax management, which means that Kumba will only undertake transactions that are fully disclosed, and only consider transactions based on a strong underlying commercial motivation, and which are not (or appear to be) artificial or contrived.
- Conducting intragroup transactions on an arm's length basis and complying with the obligations under transfer pricing rules in the jurisdictions where Kumba operates. Transfer pricing reflects the commercial and economic substance of any related-party transactions, using a consistent approach within the group. Kumba ensures that taxable profits arise in the jurisdictions where the operations create value, and is compliant with local law and international best practice.
- Kumba does not use tax haven companies.
- All Kumba entities are tax residents in the countries in which the business operates.
- Kumba seeks to maintain a long-term, open and constructive relationship with tax authorities and government.

Tax risk management forms part of Kumba's overall risk management process and ensures compliance with applicable tax legislation. It also enables the Company to timeously identify and respond to legislative amendments and new taxes. This is in line with the tax authorities' objective of improving tax compliance and encouraging businesses to adopt best practice tax risk management processes.

Kumba's tax payments include corporate income tax, mineral royalties, value added tax (VAT) on purchases, duties on imports and exports, payroll taxes and dividend withholding taxes. The Company also pays a skills levy of 1% of employees' pay to the South African Revenue Service (SARS).

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

Tax is a significant element of Kumba's overall economic contribution to government and host communities. The following cash payments were made to the jurisdictions in which the group operates:

TOTAL TAX CONTRIBUTION BY CATEGORY

Rand million	2017	2016
Corporate income tax	**5,883**	3,363
Mineral royalties	**1,160**	1,014
Payroll tax	**980**	763
Skills levy	**37**	31
UIF	**20**	22
Total	**8,080**	5,193

CAPITAL EXPENDITURE SUPPORTS PRODUCTION TARGETS

Kumba's capital expenditure in 2017 was R3.1 billion (2016: R2.4 billion). This included expansion capex of R0.6 billion, largely from the Sishen modular plant (R0.3 billion) and the Dingleton relocation project (R0.3 billion), R1.3 billion from stay-in-business (SIB) activities and R1.2 billion in deferred stripping.

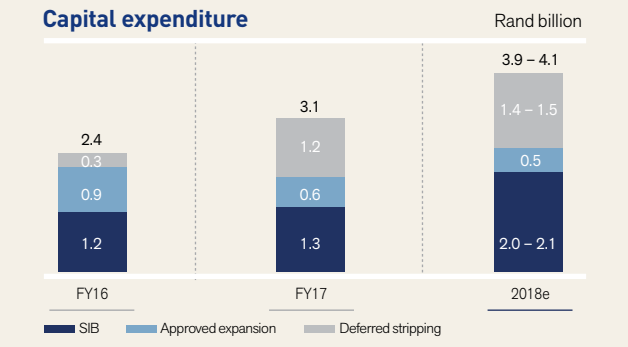
Capital expenditure for 2018, including deferred stripping, is expected to be in the range of between R3.9 billion and R4.1 billion. This will include capex to renew the mining fleet and the enhancement of infrastructure to support production targets, the finalisation of the Dingleton project, the completion of the second modular project and the planned acquisition of additional surface rights for the group's exploration programme.

Deferred stripping capitalised at Sishen is expected to increase to ~R1.2 billion, as mining activity continues in high strip areas.

Impairment review

Given the improved market conditions since 2015 when an impairment charge of R6 billion was recognised for Sishen mine, it was considered appropriate to reassess the mine's recoverable amount at 31 December 2017. Sishen has achieved improved levels of production and efficiencies. Additionally, while the long-term outlook for iron ore has remained broadly unchanged since 2015, the outlook for market conditions in the nearer term has improved. These factors have resulted in an increase in the recoverable amount for the mine to above its previous carrying value. In this context, the impairment charge previously recognised was reversed.

For information on the key assumptions applied in preparing the impairment calculation refer to page 52 of the AFS.



FINANCIAL RISK MANAGEMENT

Kumba is exposed to credit risk, liquidity risk and market risk (due to currency, interest rate and commodity price risk) from the use of financial instruments. These risks are monitored continuously by management as part of the oversight and risk management framework, while the Risk and Opportunities Committee oversees the process on behalf of the Board (for more information on the risk management process refer to page 28 of the Integrated Report). Kumba in conjunction with Anglo American SA Finance Limited (AASAF), a subsidiary of the ultimate holding company, provides a treasury function to the group that coordinates access to domestic and international financial markets and manages the financial risks relating to Kumba's operations. To mitigate credit risk, the credit ratings of all counterparties are continuously monitored and exposure is diversified among high-quality financial institutions with acceptable daily settlement limits. The group also relies on letters of credit from acceptable banks to limit the risk of financial loss from our customers.

FINANCIAL REVIEW CONTINUED

For exposure to foreign currency movements it is group policy to only use derivatives for hedging purposes and not to engage in speculative transactions. Hedging is conducted in limited circumstances and in strict compliance with the Company's treasury risk policy. For interest rate risk it is policy to borrow at floating rates and to manage the risk by minimising the after-tax cost of debt for the group and for fixed rate debt approval from the Board is required. The Company's earnings are also exposed to commodity price risk and certain of our sales are provisionally priced. Thus the selling price is determined between 30 and 180 days after delivery to the customer and is based on quoted market prices stipulated in the contract, resulting in these sales being susceptible to future price movements. In 2015, Kumba started entering into iron ore swap contracts and iron ore futures contracts to manage commodity price risk. These derivatives allow Kumba to more closely align prices achieved from sales transactions with reference prices set by the group. For more detailed information please refer to the AFS pages 75 to 81 for detailed disclosure on financial risk management.

For liquidity risk, the objective is to maintain adequate cash and credit facilities to meet all short-term obligations and to ensure that the group can meet all known forecast strategic commitments using the appropriate debt instruments.

In light of the volatile iron ore prices and continued uncertainty over the long term, Kumba reviewed its approach to capital allocation. The revised approach ensures that a robust balance sheet is maintained to provide resilience during times of volatility, and will also enable the Company to take advantage of opportunities when they arise. The Company does not use debt as a cushion for margin stress brought on by market volatility. The intention is for capital expenditure to be funded from cash generated from operations.

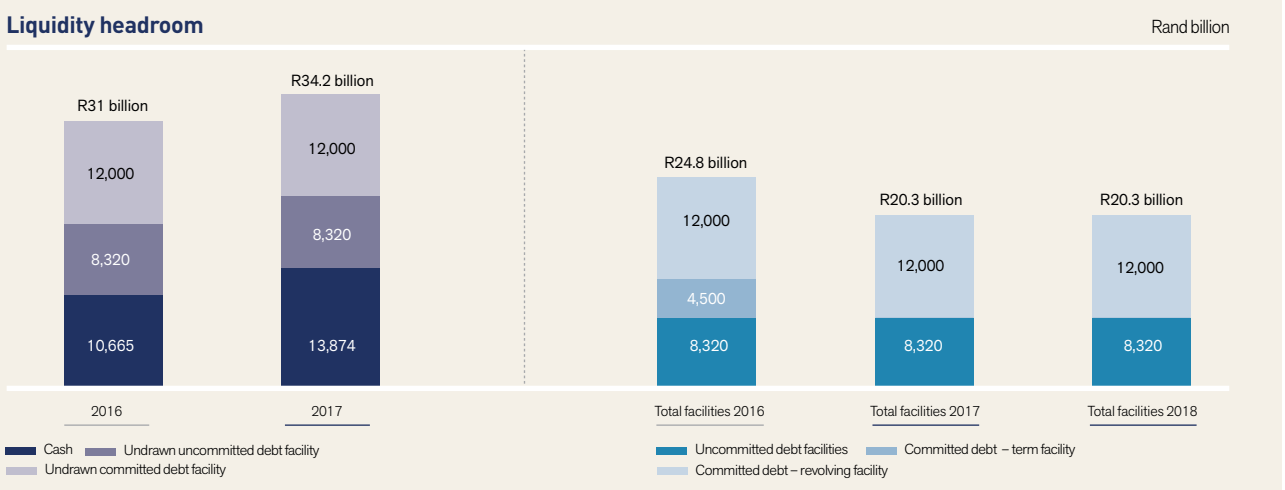
There remains an appetite for moderate gearing in the event of an attractive merger or acquisition opportunity. We return excess capital to shareholders unless there are compelling value-accretive opportunities for investment.

CASH GENERATION AND LIQUIDITY

During the year Kumba made excellent progress in cash conversion and the group ended 2017 with net cash of R13.9 billion, compared to a net cash position of R6.2 billion in 2016. Increased profitability due to higher iron ore prices and increased sales volumes contributed to the group's cash generating ability. Cash generated amounted to R22.4 billion, 30% higher than in 2016 (R17.2 billion). The cash was used to pay income tax of R5.9 billion (2016: R3.4 billion), mineral royalties of R1.2 billion (2016: R1 billion), capex of R3.1 billion (2016: R2.4 billion), repay borrowings of R4.5 billion (2016: R3.7 billion) and dividends to shareholders amounting to R6.7 billion (2016: Rnil).

Total committed facilities of R12 billion (revolving facility) mature in 2020. Financial guarantees issued in favour of the DMR in respect of environmental closure liabilities were R2.8 billion. The annual revision of closure costs reflected a further shortfall of R216 million in respect of the rehabilitation of the Thabazimbi mine. Guarantees for the shortfall will be issued in due course.

Liquidity headroom



SHAREHOLDER RETURNS

Kumba's share price continued to recover significantly during the year from R159 at 31 December 2016 to end the year at R379, gaining the accolade of best performing share on the JSE. The share price history since listing is presented below. Dividends were reinstated during 2017, resulting in a final cash dividend of R15.00 per share with a total dividend for 2017 at R30.97 per share.

CHANGE IN ESTIMATES

The measurement of the environmental rehabilitation and decommissioning provisions are a key area requiring management's judgement. 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.

The most significant changes in the provision for 2017 arise from the change in the LoM plan as well as the timing of the expected cash flows for both Sishen and Kolomela mine. The effect of the change in estimate, which was applied prospectively from 1 January 2017, is detailed below:

Rand million	Audited 31 December 2017
Increase in environmental rehabilitation provision	77
Decrease in decommissioning provision	(199)
Increase in profit attributable to the owners of Kumba	42
Rand per share	
Effect on earnings per share attributable to the owners of Kumba	0.13

The change in estimate in the decommissioning provision has been capitalised to the related property, plant and equipment and as a result had a significant effect on profit or earnings per share.

TRANSFORMATION TO FULL POTENTIAL

Kumba continued to achieve excellent operational and financial performance during 2017, but the Company remains sensitive to the volatility in the iron ore export prices and the fluctuation in the Rand/US$ exchange rate, both outside of the group's control. As set out on page 36 of the Integrated Report management is aware that more can be done to realise the full potential of the assets. By building on the strong 2017 results, the next steps have been identified to ensure the long-term sustainability of Kumba and to maximise value for all stakeholders.

The finance team will support the strategic direction of the business by focusing on four key areas:

- Dealing with the structural cost challenges and extracting additional margin through the entire value chain.
- Maintaining strict cost stewardship across the business.
- Ensuring free cash flow generation after sustaining capex and maintaining a robust balance sheet.
- Capital allocation that will sustain and grow core assets and return excess capital to shareholders, unless we see value-accretive opportunities for investment become available.

I would like to conclude by thanking all my colleagues in the finance team for their support and their efforts in producing a world-class report.

Thank you to our shareholders for your support and confidence in us, and to our stakeholders for the awards and your acknowledgement of Kumba's high standards in integrated reporting.

Bothwell Mazarura
Chief financial officer

8 March 2018

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

for the year ended 31 December 2017

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

The annual financial statements, set out on pages 25 to 98, are based on appropriate accounting policies which have been consistently applied, except for changes in accounting policies as detailed in the notes, and which are supported by reasonable and prudent judgements and estimates, comprise the statement of financial position at 31 December 2017; the statement of profit and loss, the statement of other comprehensive income, the statements of changes in equity and statement of cash flows for the year then ended; the notes to the financial statements, which include a summary of principal accounting policies and other explanatory notes; the directors' report, the audit committee report and the Company secretary report.

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

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

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

The independent external auditors are responsible for reporting on whether the consolidated financial statements and the separate financial statements are fairly presented in accordance with the applicable financial reporting framework. The independent auditor's report to the shareholders of the group and Kumba is set out on pages 22 to 24 of this report.

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

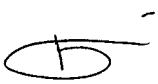
The directors acknowledge that they are ultimately responsible for the process of risk management and the system of internal financial control established by the group and place a strong emphasis on maintaining a strong control environment. The directors are not aware of any material breakdown in the 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 25 to 83 and 91 to 98 and the Company annual financial statements on pages 84 to 90 of Kumba Iron Ore Limited were approved by the Board of directors on 9 February 2018 and will be presented to the shareholders at the annual general meeting on 11 May 2018. The group and Company annual financial statements are signed on the directors' behalf by:

Dr MSV Gantsho
Chairman
9 February 2018



TM Mkhwanazi
Chief executive

CERTIFICATE OF THE COMPANY SECRETARY

for the year ended 31 December 2017

I, CD Appollis, in my capacity as Company secretary, confirm that, for the year ended 31 December 2017, Kumba Iron Ore Limited has lodged with the Registrar of Companies all such returns and notices as are required of a public company in terms of the Companies Act 71 of 2008 (as amended) of South Africa, and that all such returns and notices are true, correct and up to date.

CD Appollis
Company secretary

9 February 2018

DIRECTORS' REPORT

for the year ended 31 December 2017

The directors have pleasure in presenting the annual financial statements of Kumba and the group for the year ended 31 December 2017.

NATURE OF BUSINESS

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

Kumba is a mining group of companies focusing on the exploration, extraction, beneficiation, marketing and sale and shipping of iron ore. Kumba produces iron ore in South Africa at Sishen and Kolomela mines in the Northern Cape province. The Thabazimbi mine, located in the Limpopo Province, ceased all plant operations in 2016 following the decision taken in 2015 to close the mine.

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

CORPORATE GOVERNANCE

The group subscribes to the Code of Good Corporate Practices and Conduct as contained in the King IV code on Corporate Governance. The Board has satisfied itself that Kumba has complied in all material aspects with the King Code as well as the JSE Listings Requirements throughout the year under review. The Corporate Governance report is set out on pages 70 to 80 of the Integrated Report 2017.

FINANCIAL RESULTS

The financial statements on pages 25 to 98 set out fully the financial position, results of operations and cash flows of the group and Company for the financial year ended 31 December 2017. The financial statements have been prepared under the supervision of BA Mazarura CA(SA), Chief financial officer.

Operating results for the year

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

Rand million	**2017**	2016	% increase
Revenue	**46,379**	40,767	14
EBITDA	**19,558**	18,410	6
Cash generated from operations	**22,432**	17,218	30

The group's total revenue of R46.4 billion for the year increased 14% from R40.8 billion in 2016, mainly as a result of an 11% increase in average realised FOB iron ore price to US$71/tonne (2016: US$64/tonne) and 6% higher total sales volumes of 44.9 Mt (2016: 42.5 Mt), partially offset by the stronger average Rand/US$ exchange rate (2017: R13.30; 2016: R14.69). Firmer freight rates resulted in R1.7 billion increase in shipping revenue.

Operating expenses, excluding the reversal of the Sishen impairment, increased by 17% to R29.8 billion compared to R25.4 billion in the prior year, principally as a result of the 12% increase in total mining volumes, together with the 8% increase in production volumes and inflationary pressure on input costs. This was partially offset by savings in mining costs from productivity measures, overhead reductions and less use of contractors. Selling and distribution costs increased by 3% in real terms, driven by a 6% increase in sales volumes railed.

Freight costs were R1.4 billion higher due to the increase in the average Platts Iron Ore Index (IODEX) freight rate on the Saldanha-Qingdao route increasing to US$12/tonne. Spot freight rates averaged US$11.54/tonne, a 66% increase from US$6.95/tonne in 2016.

Cost savings were achieved through comprehensive programmes aimed at optimising overheads and on-mine costs, which, together with higher production, resulted in unit cash costs being lower than guidance. Unit cash costs at Sishen decreased by 3% to R287/tonne (2016: R296/tonne). This was primarily a result of higher production volumes and cost savings from the continued improvements in operational efficiencies, partially offset by mining related cost escalations and the higher stripping ratio of 4.3 (2016: 3.3) which increased waste volumes by 18%.

Kolomela mine incurred unit cash costs of R237/tonne (2016: R201/tonne), an 18% increase in line with expectations, due to higher mining volumes, above inflationary pressures from higher fuel prices, and costs incurred for the crushing of feedstock material for the modular plant. These modular plant costs will continue to be incurred in future.

EBITDA of R19.6 billion was 6% higher compared to R18.4 billion in the previous year, on the back of a 6% improvement in total sales volumes and an 11% increase in the average realised FOB export iron ore price to US$71/tonne (2016: US$64/tonne), partially offset by the impact of an increase in production volumes and cost inflation, including higher freight rates. Kumba's EBITDA margin decreased by 3 percentage points to 42% (2016: 45%), mainly as a result of the 17% increase in operating costs as outlined above. The group's mining operating margin decreased to 40% (2016: 41%), excluding the net freight loss incurred on shipping operations, mainly as a result of long-term fixed price chartering contracts. Net profit (after the impairment reversal) increased by 45% to R16.1 billion (2016: R11.1 billion).

The increased profitability on the back of higher average realised iron ore prices and increased sales volumes positively impacted the group's cash generating ability. Cash flow generated from operations was R22.4 billion (2016: R17.2 billion). The group ended the year with a net cash position of R13.9 billion (2016: R6.2 billion).

FINANCIAL POSITION

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

Rand million	2017	2016	% increase/ (decrease)
Property, plant and equipment	**36,833**	32,131	15
Working capital (excluding cash and cash equivalents and non-current inventories)	**1,825**	6,116	(70)
Net cash	**13,874**	6,165	125
Net asset value per share (R)	**107.95**	86.47	25

Property, plant and equipment

Capital expenditure of R3.1 billion was incurred: R1.3 billion on stay-in-business (SIB) activities, R1.2 billion on deferred stripping, and R0.6 billion on expansions, which included R0.3 billion on the Dingleton project and R0.3 billion on the Sishen second modular plant.

The relocation of the remaining houses in Dingleton is expected to be completed during 2018.

Capital expenditure for 2018, including deferred stripping, is expected to be in the range of R3.9 billion to R4.1 billion, and between R3.6 billion and R3.8 billion for 2019, excluding unapproved projects.

Impairment reversal of Sishen mine asset

At 31 December 2015, the Sishen cash generating unit (CGU) was impaired by R6 billion, with an associated deferred tax credit of R1.7 billion as a result of a deterioration in the long-term outlook for iron ore prices, which led to a reconfiguration of the Sishen pit shell to improve cash flows. The carrying amount of the Sishen CGU prior to the impairment adjustment at 31 December 2017 consisting of property, plant and equipment was R19.4 billion. The remaining balance of the impairment, after deducting notional depreciation, was R4.8 billion, including the remaining balance of the associated deferred tax of R1.3 billion. Kolomela was never impaired.

During 2017, Sishen mine achieved improved levels of production and operating efficiencies. Additionally, while the long-term outlook for the iron ore price has remained broadly unchanged since 2015, the outlook for market conditions in the nearer term has improved. Consequently, the recoverable amount of Sishen mine has been assessed and the previous impairment reversed. The revised carrying value is now R24.2 billion and was increased by R4.8 billion (R2.6 billion after tax and non-controlling interests).

The recoverable amount, based on discounted cash flows, is sensitive to changes in input assumptions particularly in relation to future iron ore prices and Rand/US$ exchange rates. For example, a US$5/tonne increase or decrease in the long-term price forecast for iron ore equates to a R3.2 billion increase or R3.5 billion decrease in the recoverable amount. The recoverable amount has been assessed under a range of valuation scenarios, incorporating downside adjustments to both operating and economic assumptions, all of which indicate headroom over the revised carrying value of R24.2 billion. For example, under the most conservative long-term downside case, the headroom is R6.7 billion.

DIRECTORS' REPORT CONTINUED
for the year ended 31 December 2017

Cash flow projections were determined for the life of the Sishen mine. Inputs into the discounted cash flow model were based on economic assumptions and forecast trading conditions drawn up by management. To the extent that specific risk factors were not incorporated into the discount rate, adjustments were made to the cash flow projections.

Of this reversal, R368 million has been recorded against land and buildings, R347 million against buildings and infrastructure, R2.3 billion against machinery, plant and equipment, R812 million against site preparation and development, R910 million against assets under construction and R61 million against mineral rights.

Sensitivity analyses were performed to determine whether a reasonable possible change in any of the key assumptions would result in an additional impairment, partial reversal or no reversal of the previous impairment. Reasonable downward changes in any of the key assumptions would still provide sufficient headroom to support full reversal of the impairment recognised in 2015.

Working capital
The group's working capital remains healthy. The decrease in trade and other receivables of R2.5 billion, is mainly due to an increase in collections in December 2017, compared to prior years.

Net cash
At 31 December 2017, the group had a net cash position of R13.9 billion (2016: R6.2 billion).

ACCOUNTING POLICIES
A number of amended accounting standards were effective for the first time for the financial year beginning on or after 1 January 2017. 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	2017	2016
Balance at beginning of year	**(114)**	(131)
Net movement in treasury shares under employee share incentive schemes	**60**	17
– Purchase of treasury shares under employee share incentive schemes	**(61)**	(180)
– Shares issued to employees under employee share incentive schemes	**121**	197
Share capital and share premium	**(54)**	(114)

The group acquired 284,194 (2016: 2,140,891) of its own shares through purchases on the JSE during the year.

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

DIVIDENDS
An interim cash dividend of R15.97 per share was paid on 21 August 2017. A final cash dividend of R15.00 per share was declared on 13 February 2018 from profits accrued during the financial year ended 31 December 2017. The total cash dividend for the year amounted to R10 billion, R30.97 per share.

The total cash flow of the final cash dividend of R15.00 per share, payable on 12 March 2018, is R4.8 billion for Kumba Iron Ore Limited.

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

SUBSIDIARIES, JOINT ARRANGEMENTS AND ASSOCIATES

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

EQUITY COMPENSATION PLANS

Refer to the detailed remuneration report on pages 81 to 103 of the Integrated Report 2017, note 35, '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 2017.

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 (2016: 69.71%).

The analysis of ordinary shareholders is given on pages 99 and 100.

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 2017. 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

The two matters that were reported as contingent liabilities at 31 December 2016, being the South African Revenue Service matter and the matter regarding the Sishen municipal rates and taxes, were resolved at the beginning of the 2017 financial year. There were no contingent liabilities at 31 December 2017.

Guarantees

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 (2016: R2.8 billion). Included in this amount are financial guarantees for the environmental rehabilitation and decommissioning obligations of the group in respect of Thabazimbi mine of R439 million (2016: R439 million). ArcelorMittal SA has guaranteed R439 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 R216 million arose. Guarantees for the shortfall will be issued in due course.

REGULATORY UPDATE

21.4% undivided share of the Sishen mining rights

Sishen's application, in terms of section 102 of the Mineral and Petroleum Resources Development Act No 28 of 2002, to extend the Sishen mining right by the inclusion of the adjacent Sishen Iron Ore Proprietary Limited (SIOC) Prospecting Rights was granted on 6 July 2017 and the process to amend the Sishen mining right continues. Mining operations in this area will only commence once the required environmental authorisation, in terms of the National Environmental Management Act 1998, Act 107 of 1998, has been approved, which is expected soon. The grant allows Sishen mine to expand its current mining operations within the adjacent Dingleton area.

COMPANY SECRETARY

The Company secretary of Kumba is Ms CD Appollis who was appointed on 1 December 2017. The contact details of the Company secretary are set out on page 101. Her abridged CV is available for inspection at the Company's registered office. The previous Company secretary, Mrs A Parboosing, resigned from the Company with effect from 30 June 2017.

DIRECTORS' REPORT CONTINUED
for the year ended 31 December 2017

DIRECTORS
The names of the directors who were in office during the year and at the date of this report are set out on pages 14 and 15 of the Integrated Report 2017. The remuneration and fees of directors as well as the directors' beneficial interest in Kumba are set out in note 35 to the consolidated financial statements. Refer to pages 72 and 73 of the Integrated Report 2017 for details of directors who resigned or were appointed during the year.

PRESCRIBED OFFICERS
The names of the prescribed officers who served during the year and as at the date of this report are set out on page 15 of the Integrated Report 2017. The remuneration and fees of the prescribed officers are set out in note 35 to the consolidated financial statements. Although Timo Smit is a prescribed officer of Kumba as a member of Executive Committee (Exco), he is employed by Kumba Singapore Pte and as such, his remuneration is disclosed in the table on page 82. Refer to page 82 of the 2017 financial statements for details of prescribed officers who resigned or were appointed during the year.

AUDITORS
Deloitte & Touche was appointed as the auditor of Kumba and its subsidiaries from inception on 1 November 2006 and continued in office for the year ended 31 December 2017. At the annual general meeting on 11 May 2018, shareholders will be requested to re-appoint Deloitte & Touche as auditor of Kumba for the 2018 financial year.

SPECIAL RESOLUTION
On 12 May 2017, the shareholders of Kumba resolved the following:

(1) The Company and any of its subsidiaries may from time-to-time be authorised to acquire of the Company's own shares subject to the articles of association of the Company, the provisions of the Companies Act (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 thirteenth annual general meeting of the Company in 2018;

(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 memorandum of incorporation (MoI) of the Company, the Companies Act and certain other conditions; and

(5) The existing MoI is hereby substituted and replaced in its entirety with a new MoI. This substitution will take effect from the date on which the notice of amendment in respect of the new MoI, a copy of which has been tabled at the meeting at which this special resolution will be considered and has been initialled by the Chairman of the meeting for purposes of identification. This substitution will take effect from the date on which the notice of amendment in respect of the new MoI is filed with the Companies and Intellectual Property Commission (CIPC) and CIPC has confirmed that the new MoI has been accepted and placed on file.

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

REPORT OF THE AUDIT COMMITTEE

for the year ended 31 December 2017

INTRODUCTION

The Audit Committee (the Committee) is pleased to present its report for the financial year ended 31 December 2017 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 February 2018, taking into account material changes to the JSE Listings Requirements during the year under review and ensuring that the principles of the King Code were adequately entrenched therein.

ROLE AND RESPONSIBILITIES

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

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

COMPOSITION

The Audit Committee, appointed by the Board and approved by the shareholders in respect of the financial year ended 31 December 2017, comprised the following independent non-executive directors, all of whom have the requisite financial skills, business acumen and experience to fulfil the Committee's duties:

- SS Ntsaluba* (Chairman)
- TP Goodlace*
- DD Mokgatle
- AJ Morgan
- ZBM Bassa**
- F Titi***

* Mr SS Ntsaluba and Mr TP Goodlace were appointed on 6 June 2017.

** Ms ZBM Bassa, former chairperson of the Committee, resigned from the Board with effect from 11 May 2017.

*** Mr F Titi was appointed to the Audit Committee on 8 February 2017 and resigned from the Board with effect from 30 September 2017.

Brief biographies of the Committee members are available on the Company's website. During the year under review, the members of the Committee were nominated by the Board for re-election and Ms DD Mokgatle, Mr AJ Morgan and Mr F Titi, having availed themselves for re-election by the shareholders at the 2017 annual general meeting, were re-elected accordingly.

Subsequent to year-end, Ms M Bomela was appointed as a member of the Audit Committee.

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. Besides the pre-meetings, the Committee meets separately with internal and external auditors at least once a year.

REPORT OF THE AUDIT COMMITTEE CONTINUED

for the year ended 31 December 2017

COMMITTEE MEETING ATTENDANCE

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

	Meeting date					Number of meetings
Member	**08/02/2017**	**08/03/2017***	**10/05/2017**	**19/07/2017**	**21/11/2017**	**attended**
SS Ntsaluba (Chairman)	N/A	N/A	N/A	✓	✓	**2/2**
DD Mokgatle	✓	✓	✓	✓	✓	**5/5**
AJ Morgan	✓	✓	✓	✓	✓	**5/5**
TP Goodlace	N/A	N/A	✓	✓	✓	**3/3**
ZBM Bassa	✓	✓	✓	R	R	**3/3**
F Titi	✓	✓	✓	R	R	**3/3**

* Special meeting to sign-off 2016 reporting suite
✓ Indicates attendance
N/A Indicates that the member had not yet been appointed as a member of the Committee at the time of the meeting
R Resigned

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 2017, and ensured that these were compliant with the provisions of the Companies Act, IFRS and the JSE Listings Requirements. This review culminated in a recommendation to the Board for the approval of the financial statements.

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

The Committee reviewed the group's significant accounting matters and recommended the approval thereof by the Board which included:
- Impairment review of non-financial assets (excluding inventories and deferred tax asset); and
- Valuation of inventory.

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

(a) Impairment review of non-financial assets (excluding inventories and deferred tax asset)

During 2017, Sishen mine achieved improved levels of production and operating efficiencies. Additionally, whilst the long-term outlook for the iron ore price has remained broadly unchanged since 2015 when the Sishen CGU was impaired, the outlook for market conditions in the nearer term has improved. Consequently, the recoverable amount of Sishen mine was assessed to determine whether any reversal of the previous impairment was required. Kolomela mine was never impaired and therefore the improvements in the iron ore price and Rand/US$ exchange rate outlook did not pose a risk of impairment of the Kolomela CGU.

In assessing a reversal of impairment for Sishen CGU, management applied judgements and assumptions on the iron ore price and Rand/US$ exchange rate outlook to determine the recoverable amount of the Sishen CGU at 31 December 2017 which was then compared to its carrying amount. Management reported the results of the impairment assessment to the Committee and noted that future cash flows had been estimated based on the most recent forecasts and the 2017 life-of-mine plan, and then discounted using a discount rate that reflected current market assessments of the time value of money and risks specific to the asset. Management also brought to the attention of the Committee the sensitivity analyses performed with regards to the recoverable amounts of the CGU to obtain comfort that a reasonable possible change in any of the assumptions would not result in an additional impairment charge or a partial or no reversal of the previous impairment. The disclosure for the impairment assessment in the financial statements was proposed to the Committee.

The Committee assessed the appropriateness of the CGUs, impairment methodology and reviewed management's review of indicators for impairment and reversal of impairment. Specifically the Committee assessed whether there has been a change in the underlying economic circumstances which warranted the Sishen impairment charge recognised in 2015. The Committee reviewed management's judgements and assumptions, including the assumptions for the iron ore price and Rand/US$ exchange rate outlook. To ensure reasonability of the assumptions, the Committee benchmarked these against the analyst consensus. As part of its annual process, the Committee reviewed the discount rate used to determine the recoverable amount and was satisfied with the discount rate applied. The Committee also reviewed and was satisfied with the sensitivity analyses performed by management and, in addition, reviewed and was satisfied with the disclosures related to the impairment assessment and sensitivity analyses of recoverable amounts in note 2.

The external auditor explained their audit procedures to test the impairment assessment and considered the financial statement disclosure requirements on impairment and impairment reversal. Based on their audit work performed on this matter, the auditor was satisfied that the carrying amount of the Sishen CGU was materially appropriate in the context of the financial statements as a whole.

(b) Valuation of inventory

Management performed a comprehensive review of the valuation of inventory, taking into account that work-in-progress has the same cost base as finished product.

The Committee reviewed the inventory write down and the procedures undertaken by management to confirm the valuation of inventory and was satisfied that a sufficiently robust process was followed to confirm the valuation of inventory, and that the net realisable value of inventory was calculated correctly.

The external auditor explained their audit procedures to test the valuation of inventory and to review management's calculations of the net realisable value. Based on the audit work conducted, the auditor was satisfied with the valuation of inventory and did not report any misstatements that were considered material in the context of the financial statements as a whole.

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. The Committee has satisfied itself that the external auditor and lead audit partner are both accredited on the JSE's list of auditors and advisers. The Committee therefore recommended the re-appointment of the external auditors and the re-appointment of the designated auditor at the 2017 annual general meeting.

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

The Committee approved the non-audit-related services performed by the external auditor during the 2017 year and determined the external auditor's terms of engagement and fees for the year under review. To safeguard the objectivity and independence of the external auditor, the Company has a policy, available at the Company's registered office and on the Company's website, which provides guidance on the formal procedure to be followed when the external auditor is considered for non-audit services. Non-audit services are generally limited to assignments that are closely related to the annual audit or where the work is of such a nature that a detailed understanding of the group is required. Certain non-audit services require prior approval of the Committee while others are prohibited. Fees for audit related services and non-audit services incurred during the year amounted to R9 million and R3 million respectively (2016: R9 million and R1 million respectively).

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

REPORT OF THE AUDIT COMMITTEE CONTINUED

for the year ended 31 December 2017

External auditors continued

Deloitte & Touche has been the auditor of the Company since inception in 2006 and Mr Sebastian Carter was appointed in 2013. As required by section 92 of the Companies Act, the lead audit partner is required to be rotated every five years. Mr Sebastian Carter has been the lead audit partner for the past five years and is therefore due for rotation at the conclusion of the audit of the 2017 financial statements. The Audit Committee has evaluated the independence, experience and effectiveness of both Deloitte and Mrs Nita Ranchod and has concluded that both the firm and the individual designated auditor are independent of the Company in accordance with section 94(8) of the Companies Act. In compliance with the JSE Listings Requirements (paragraph 3.84(h)(iii)) the Audit Committee obtained and considered all information listed in paragraph 22.15(h) of the Listings Requirements of the JSE in its assessment of the suitability of Deloitte, as well as Mrs Nita Ranchod for reappointment and appointment respectively.

Internal audit

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

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

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

The internal audit plan for the 2017 financial year which reflected a risk-based approach focusing on financial and operational processes was approved in 2016. The results of the 2017 reviews conducted on the internal controls were reported to the Committee. The Committee considered and was satisfied with the effectiveness of the internal audit function and monitored adherence to the annual internal audit plan.

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

Internal financial controls

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

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

Combined assurance and risk management oversight

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

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

Integrated reporting

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

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

The Committee therefore recommended the integrated report and the sustainability report for 2017 for approval to the Board. The Board will approve the reports which will be available and open for discussion at the 2018 annual general meeting.

Solvency and liquidity review

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

Going concern status

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

Chief financial officer and finance function

The previous Chief financial officer, Mr FT Kotzee, resigned effective 11 May 2017. Mr DJ Prins filled the role as acting Chief financial officer until the current Chief financial officer, Mr BA Mazarura, was appointed. Mr Mazarura was appointed effective 1 September 2017. The Committee reviewed his expertise and experience which were thoroughly vetted during the recruitment and appointment process.

The Committee further reviewed the appropriateness of the financial reporting procedures and that these were implemented during the year.

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.

SS NTSALUBA
Chairman of the Audit Committee
9 February 2018

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 25 to 98, which comprise the consolidated and separate statement of financial position as at 31 December 2017, and the consolidated and separate statement of profit and loss, consolidated statement of other comprehensive income, the consolidated and separate statement of changes in equity and the consolidated and separate statement of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 31 December 2017, 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 and Separate Financial Statements section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
IMPAIRMENT CONSIDERATIONS FOR SISHEN MINE CASH GENERATING UNIT (CGU) AND IDLE ASSETS	
In 2015, the group recognised an impairment loss of R6 billion in respect of the Sishen mine cash generating unit (CGU). Over the past two years, iron ore prices and the mine's operating performance have improved and a reassessment of the key factors that led to the impairment was required to determine the appropriateness of maintaining the impairment recognised. The discounted cash flow model prepared by the directors is considered to be a key audit matter due to the significant judgement and estimates used to compile the calculation. The reconfiguration of the Sishen pit during 2016 resulted in certain mining equipment being removed from production. Certain of these assets were sold or re-introduced into production while others remain mothballed at the year-end. In 2017, we have considered the impairment indicators in existence with regard to assets which remain idle at year-end. Refer to principal accounting policy note 5.5 and note 2 to the consolidated financial statements which detail the key assumptions applied in preparing the discounted cash flow impairment calculation for the Sishen mine CGU.	Our audit procedures performed with respect to the Sishen mine CGU impairment charge reversal included: – A review of the key factors which led to the reversal of the impairment charge. – A detailed review of the key inputs used in the discounted cash flow model. We challenged the key assumptions used by the directors including the life of mine, forecast iron ore prices, exchange rates, production forecasts, operating cost and capital expenditure forecasts and the discount rate applied to present value cash flows. Consideration was given to third party commodity price and exchange rate forecasts, actual operating results for the current year and various sensitivity analyses performed by management. – An assessment of the mechanical accuracy of the discounted cash flow model. – A review of the adequacy of the 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. The iron ore price assumptions used in the model are considered reasonable as these are within the range of forecast prices as determined by a broad group of independent market analysts whilst the lump premiums and shipping rates are based on current data adjusted for more probable short-term fluctuations. The other assumptions used in the impairment models are based on the approved budgets and do not demonstrate unusual or unexpected annual fluctuations and are substantially consistent with recent actual operating performance of Sishen mine which is considered by the directors to be sustainable. Whilst certain of the assumptions included in the impairment model includes a degree of conservatism, we consider this to be appropriate as the model is a long-term model and there is inherent volatility in various of the "uncontrollable assumptions" such as iron ore prices, freight rates, exchange rates and lump premiums. In terms of our assessment of the qualitative factors and the results arising from the impairment model, we consider it appropriate that the impairment charge was reversed at the year-end. Detailed consideration has been given to the nature and expected use of idle equipment at Sishen mine in terms of the current mine plans. Management have elected to retain these assets within the Property, Plant and Equipment balance instead of separately disclosing them as assets held for sale and we concur with the accounting treatment of these assets at 31 December 2017 as it is not probable that these assets will be disposed of in the next 12 months.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
VALUATION OF WORK-IN-PROGRESS (WIP) INVENTORY STOCKPILES	
The group has significant WIP inventory stockpiles at both Sishen and Kolomela mines, which includes ore which requires further processing in order to get it to a state that it is saleable. The value of WIP stockpiles on hand at year-end was R4.2 billion as disclosed in note 5 to the consolidated financial statements. During the current year, an exercise was undertaken by mine technical management to identify stockpiles which may not be useable at Sishen mine given the expenditure that may need to be incurred to access the material and taking into account the change in the capital allocation strategy following the reconfiguration of the Sishen pit in 2016. We consider the accounting for the stockpiles to be a key audit matter due to the significant directors' judgement applied in the determination of stockpiles quantities and their valuation.	Our audit procedures included: – Performing audit procedures around the surveying processes employed to measure the stockpiles and the valuation of the stockpiles both in terms of the costs allocated thereto and to ensure that the stockpiles are valued at the lower of cost and net realisable value. – Perform enquiries of the Sishen mine technical team to understand the process undertaken in the current year to assess the future useability of the various WIP stockpiles at the mine. – Engaging our internal mining experts to conduct field visits together with mine management at Sishen mine to assess the usage classifications applied by management to the larger stockpiles and therefore to assess the appropriateness of the impairments recognised in the current year. – Assessing the underlying workings on the quantity and unit costs of the stockpiles for numerical accuracy. Whilst we understand that further technical studies need to be completed to finalise the assessment of the useability of certain WIP inventory stockpiles, we confirmed that the impairments recognised in the current year relate to stockpiles where access is dependent on significant expenditure being incurred to construct roads and other infrastructure which may not be catered for in the group's current capital allocation strategy. Based on the procedures performed, we concur with the valuation of WIP inventory stockpiles at the year-end.

Other information

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

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

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

INDEPENDENT AUDITOR'S REPORT CONTINUED

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

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

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

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

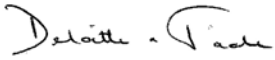
We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in *Government Gazette* Number 39475 dated 4 December 2017, we report that Deloitte & Touche has been the auditor of Kumba Iron Ore Limited for 12 years.



Deloitte & Touche
Registered Auditor
Per: Sebastian Benedikt Field Carter
Partner

9 February 2018

National Executive: LL Bam Chief Executive Officer*, TMM Jordan Deputy Chief Executive Officer; Clients & Industries*, MJ Jarvis Chief Operating Officer*, AF Mackie Audit & Assurance*, N Sing Risk Advisory*, NB Kader Africa Tax & Legal*, TP Pillay Consulting, S Gwala BPS, JK Mazzocco Talent & Transformation*, MG Dicks Risk Independence & Legal, TJ Brown Chairman of the Board*

A full list of partners is available on request. *Partner and registered auditor

B-BBEE rating: Level 1 contribution in terms of the DTI Generic Scorecard as per the amended Codes of Good Practice

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

PRINCIPAL ACCOUNTING POLICIES

for the year ended 31 December 2017

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 are authorised for issue by the Company's Board of directors.

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

The following principal accounting policies and methods of computation were applied by the group and the Company in the preparation of the consolidated and separate financial statements for the financial year ended 31 December 2017. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Statement of compliance

2.2.1 Amendments to published standards and interpretations

The following standards, amendments to published standards and interpretations which became effective for the year commencing on 1 January 2017 were adopted by the group:

STANDARD, AMENDMENT OR INTERPRETATION	IMPACT ON THE FINANCIAL STATEMENTS
Amendments to IAS 7 *Statement of cash flow on disclosure initiative*	No impact on the financial statements
Amendments to IAS 12 *Recognition of deferred tax assets for unrealised losses*	No impact on the financial statements
Annual improvements to IFRS 2012–2016 – Amendments to IFRS 12 *Disclosure of Interests in Other Entities.*	No impact on the financial statements

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

In 2017, 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 2017, are being evaluated for the impact of these pronouncements. These accounting standards are listed in Annexure 4.

2.3 Currencies

Functional and presentation currency

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

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2017

2. BASIS OF PREPARATION continued

2.3 Currencies continued

Foreign currency transactions and balances

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

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

Foreign operations

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

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

2.4 Segment reporting

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

Management has determined the operating segments of the group based on the reports reviewed by the Executive Committee that are used to make strategic decisions. The Executive Committee considers the business principally according to the nature of the products and 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.

2.5 Events after the reporting period

Recognised amounts in the financial statements are adjusted to reflect events arising after the statement of financial position date that provide evidence of conditions that existed at the statement of financial position date. Events after the statement of financial position date that are indicative of conditions that arose after the statement of financial position date are dealt with in note 32.

3. COMPANY FINANCIAL STATEMENTS

Subsidiaries, associates and joint arrangements

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

4. CONSOLIDATED FINANCIAL STATEMENTS

4.1 Basis of consolidation

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

Where necessary, adjustments are made to the results of subsidiaries, joint 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.

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 associated or joint ventures. 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 statement of profit and loss 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.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2017

4. CONSOLIDATED FINANCIAL STATEMENTS continued

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.

STATEMENT OF FINANCIAL POSITION

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; and
- Deferred waste stripping costs.

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

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

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

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

Research, development, mineral exploration and evaluation costs

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

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

Once these criteria are met, all directly attributable development costs and ongoing mineral exploration and evaluation costs are capitalised within property, plant and equipment. 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 reserve life stripping ratio for that component. The deferred costs are charged to operating costs using a unit of production method of depreciation. The ex-pit ore extracted from the related component during the period is expressed as a percentage of the total ex-pit ore expected to be extracted from that component over the reserve life and applied to the balance of the deferred stripping asset for that component. The effect of this will therefore be that the cost of stripping in profit or loss will be reflective of the average stripping rates for the ore body mined in any given period. This reflects the fact that waste removal is necessary to gain access to the ore body and therefore realise future economic benefit.

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

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

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

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2017

4. CONSOLIDATED FINANCIAL STATEMENTS continued

4.3 Impairment of non-financial assets

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognised in the statement of profit and loss.

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

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

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 remeasurements are recognised in the statement of profit and loss.

4.5 Financial assets

Recognition and measurement

Regular purchases and sales of financial instruments are recognised on the trade date, being the date in 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 (FVTPL) are initially recognised at fair value, and transaction costs are expensed in the statement of profit and loss.

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 FVTPL 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 FVTPL category are presented in the statement of profit and loss within 'Finance cost/income' in the period in which they arise.

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

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 FVTPL consists of derivative financial assets as well as the investments held by the environmental trust.

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 statement of financial position.

Trade and other receivables
Trade receivables are amounts due from customers for iron ore sold or shipping services rendered in the ordinary course of business. Other receivables are amounts due to Kumba, which do not result from the sale of iron ore or shipping services rendered and 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 cash flows statements, 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 and 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 statement of financial position 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 statement of profit and loss.

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 statement of profit and loss.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2017

4. CONSOLIDATED FINANCIAL STATEMENTS continued

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 statement of financial position 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 statement of profit and loss over the period of the borrowings using the effective interest method. Interest calculated using the effective interest rate method is recognised in the statement of profit and 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 others payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

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

4.9 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 statement of financial position.

4.10 Inventories

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

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

Plant spares and consumable stores are capitalised to the statement of financial position and expensed to the statement of profit and loss as they are utilised.

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

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

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

4.12 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 the statement of profit and loss.

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

4.13 Provisions

Environmental rehabilitation

Environmental rehabilitation provisions

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

Ongoing rehabilitation expenditure

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

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2017

4. CONSOLIDATED FINANCIAL STATEMENTS continued

Decommissioning provision

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

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

4.14 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; and
- Investments in subsidiaries to the extent they will probably not reverse in the foreseeable future.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that 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 statement of financial position date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all of the assets to be recovered.

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

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

4.15 Employee benefits

Post-employment benefits

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

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

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

The group does not provide defined employee benefits to its current 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 statement of financial position date, they are discounted to present value.

Equity compensation benefits

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

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

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2017

4. CONSOLIDATED FINANCIAL STATEMENTS continued

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

4.16 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 service 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 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

Local and export revenue from the sale of iron ore is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. This is usually when the title and insurance risk have passed to the customer and the goods have been delivered to a contractually agreed location.

Shipping services

Revenue from shipping services is recognised as the services are rendered and accepted by the customer. Amounts billed to customers in respect of shipping and handling activities are classified as revenue where the group is responsible for the freight services.

Derivative financial instruments gains/losses

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

4.17 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.

4.18 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.

4.19 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, borrowing costs 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 the statement of profit and loss in the period in which they are incurred.

4.20 Employee benefits: short-term benefits

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

4.21 Operating leases

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

4.22 Taxation

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

Current tax

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

Dividend tax

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

4.23 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.

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

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

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2017

4. CONSOLIDATED FINANCIAL STATEMENTS continued

4.24 Convenience translation from South African Rand to US Dollar

The presentation currency of the group is South African Rand.

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

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

The resulting translation differences are included in 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.

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

5.1 Consolidation of special purpose entities

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

5.2 Segment reporting

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

5.3 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; and
- Changes in capital, operating, mining, processing, reclamation and logistics costs, discount rates and foreign exchange rates.

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

5.4 Waste stripping costs

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

- Average reserve life stripping ratio; and
- Total expected production over the reserve life.

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

5.5 Assessment of fair value less cost to sell

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 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.

PRINCIPAL ACCOUNTING POLICIES CONTINUED

for the year ended 31 December 2017

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

5.5 Assessment of fair value less cost to sell continued

Cash flow projections

Cash flow projections are based on financial budgets and LoMP, 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 discount rate of 7% (2016: 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 LoMP 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.

5.7 Equity-settled share-based payment reserve

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

5.8 Provision for environmental rehabilitation and decommissioning

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

5.9 Deferred tax assets

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

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

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

5.11 Provisionally priced revenue from spot sales

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

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

5.12 Going concern

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

6. DISCONTINUED OPERATION

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

The Thabazimbi mine continues to be classified as a discontinued operation for the year ended 31 December 2017 consistent with the prior year. The analysis of the results of Thabazimbi has been disclosed in note 20.

STATEMENT OF FINANCIAL POSITION

as at 31 December

Rand million	Notes	2017	2016
ASSETS			
Property, plant and equipment	2	**36,833**	32,131
Biological assets		**3**	2
Investments held by environmental trust	3	**627**	559
Long-term prepayments and other receivables	4	**211**	84
Deferred tax assets	10	**72**	87
Inventories	5	**2,841**	2,889
Non-current assets		**40,587**	**35,752**
Inventories	5	**4,061**	4,604
Trade and other receivables	6	**2,709**	5,253
Cash and cash equivalents	7	**13,874**	10,665
Current assets		**20,644**	**20,522**
Assets of disposal group classified as held for sale	20	**1,235**	938
Total assets		**62,466**	**57,212**
EQUITY AND LIABILITIES			
Shareholders' equity		**34,769**	27,850
Non-controlling interest	23	**10,777**	8,686
Total equity		**45,546**	**36,536**
Liabilities			
Interest-bearing borrowings	8	**–**	4,500
Provisions	9	**1,860**	1,967
Deferred tax liabilities	10	**8,860**	7,462
Non-current liabilities		**10,720**	**13,929**
Provisions	9	**147**	164
Trade and other payables	11	**4,945**	3,741
Current tax liabilities		**59**	1,906
Current liabilities		**5,151**	**5,811**
Liabilities of disposal group classified as held for sale	20	**1,049**	936
Total liabilities		**16,920**	**20,676**
Total equity and liabilities		**62,466**	**57,212**

STATEMENT OF FINANCIAL POSITION – US DOLLAR CONVENIENCE TRANSLATION

(supplementary information)
as at 31 December

US Dollar million	2017	2016
ASSETS		
Property, plant and equipment	**2,993**	2,340
Biological assets	*	*
Investments held by environmental trust	**52**	41
Long-term prepayments and other receivables	**17**	6
Deferred tax assets	**6**	6
Inventories	**231**	210
Non-current assets	**3,299**	**2,603**
Inventories	**330**	335
Trade and other receivables	**220**	383
Cash and cash equivalents	**1,127**	776
Current assets	**1,677**	**1,494**
Assets of disposal group classified as held for sale	**100**	68
Total assets	**5,076**	**4,165**
EQUITY AND LIABILITIES		
Shareholders' equity	**2,825**	2,025
Non-controlling interest	**876**	633
Total equity	**3,701**	**2,658**
Liabilities		
Interest-bearing borrowings	**–**	328
Provisions	**151**	143
Deferred tax liabilities	**720**	544
Non-current liabilities	**871**	**1,015**
Provisions	**12**	12
Trade and other payables	**402**	273
Current tax liabilities	**5**	139
Current liabilities	**419**	**424**
Liabilities of disposal group classified as held for sale	**85**	68
Total liabilities	**1,375**	**1,507**
Total equity and liabilities	**5,076**	**4,165**
EXCHANGE RATE		
Translated at closing Rand/US$ exchange rate	**12.31**	13.73

* Amount is less than US$1 million.

STATEMENT OF PROFIT AND LOSS

for the year ended 31 December

Rand million	Notes	2017	2016
Revenue	12	**46,379**	40,155
Operating expenses	13	**(24,989)**	(24,881)
Operating profit	14	**21,390**	15,274
Finance income	17	**637**	295
Finance costs	17	**(339)**	(496)
Share of profit of equity accounted joint venture		**–**	2
Profit before taxation		**21,688**	15,075
Taxation	18	**(5,481)**	(3,934)
Profit for the year from continuing operations		**16,207**	**11,141**
Discontinued operation			
(Loss)/profit from discontinued operation	20	**(74)**	3
Profit for the year		**16,133**	**11,144**
Attributable to:			
Owners of Kumba		**12,335**	8,621
Non-controlling interest		**3,798**	2,523
		16,133	**11,144**
Basic earnings/(loss) per share attributable to the ordinary equity holders of Kumba (Rand per share)			
From continuing operations		**38.86**	26.97
From discontinued operation		**(0.23)**	0.01
Total basic earnings per share		**38.63**	**26.98**
Diluted earnings/(loss) per share attributable to the ordinary equity holders of Kumba (Rand per share)			
From continuing operations		**38.60**	26.83
From discontinued operation		**(0.23)**	0.01
Total diluted earnings per share		**38.37**	**26.84**

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December

Rand million	2017	2016
Profit for the year	**16,133**	11,144
Other comprehensive income for the year[1]	**(454)**	(233)
Exchange differences on translation of foreign operations	**(454)**	(233)
Total comprehensive income for the year	**15,679**	**10,911**
Attributable to:		
Owners of Kumba	**11,989**	8,442
Non-controlling interest	**3,690**	2,469
	15,679	**10,911**

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

STATEMENT OF PROFIT AND LOSS – US DOLLAR CONVENIENCE TRANSLATION

(supplementary information)
for the year ended 31 December

US Dollar million	2017	2016
Revenue	**3 487**	2,733
Operating expenses	**(1 879)**	(1,694)
Operating profit	**1 608**	1,039
Finance income	**48**	20
Finance costs	**(25)**	(34)
Share of profit of equity accounted joint venture	**–**	*
Profit before taxation	**1 631**	1,025
Taxation	**(412)**	(268)
Profit for the year from continuing operations	**1 219**	**757**
Discontinued operation		
(Loss)/profit from discontinued operation	**(6)**	*
Profit for the year from continuing operation	**1 213**	**757**
Attributable to:		
Owners of Kumba	**927**	587
Non-controlling interest	**286**	170
	1 213	**757**
Basic earnings/(loss) per share attributable to the ordinary equity holders of Kumba (US Dollar per share)		
From continuing operations	**2.92**	1.84
From discontinued operation	**(0.02)**	0.00
Total basic earnings per share	**2.90**	**1.84**
Diluted earnings/(loss) per share attributable to the ordinary equity holders of Kumba (US Dollar per share)		
From continuing operations	**2.90**	1.83
From discontinued operation	**(0.02)**	0.00
Total diluted earnings per share	**2.88**	**1.83**
EXCHANGE RATE		
Translated at average Rand/US$ exchange rate	**13.30**	**14.69**

* Amount is less than US$1 million.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

Rand million	Notes	Share capital and share premium	Treasury shares	Equity-settled share-based payments reserve	Foreign currency translation reserve	Retained earnings	**Share-holders' equity**	Non-controlling interest	**Total equity**
		21	21	22				23	
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**
Net movement in treasury shares under employee share incentive schemes		**–**	**(61)**	**–**	**–**	**–**	**(61)**	**–**	**(61)**
Equity-settled share-based payments expense		**–**	**–**	**135**	**–**	**–**	**135**	**–**	**135**
Vesting of shares under employee share incentive schemes		**–**	**121**	**(121)**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income for the year		**–**	**–**	**–**	**(346)**	**12,335**	**11,989**	**3,690**	**15,679**
Dividends paid		**–**	**–**	**–**	**–**	**(5,144)**	**(5,144)**	**(1,599)**	**(6,743)**
Balance at 31 December 2017		**367**	**(421)**	**186**	**916**	**33,721**	**34,769**	**10,777**	**45,546**

Dividend per share

Rand	**2017**	2016
Interim	**15.97**	–
Final[1]	**15.00**	–
Total	**30.97**	–

[1] The final dividend for 2017 was declared subsequent to the year-end and is presented for information purposes only.

Equity-settled share-based payments reserve

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

Foreign currency translation reserve

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

STATEMENT OF CASH FLOWS

for the year ended 31 December

Rand million	Notes	2017	2016
Cash flows from operating activities			
Cash receipts from customers		**48,325**	38,797
Cash paid to suppliers and employees		**(25,893)**	(21,579)
Cash generated from operations	24	**22,432**	**17,218**
Income from investments		**–**	2
Net finance income received/(cost paid)	25	**461**	(319)
Taxation paid	26	**(5,883)**	(3,363)
		17,010	**13,538**
Cash flows utilised in investing activities			
Additions to property, plant and equipment	28	**(3,074)**	(2,353)
Proceeds from disposal of non-current assets		**27**	9
		(3,047)	**(2,344)**
Cash flows utilised in financing activities			
Purchase of treasury shares		**(61)**	(180)
Dividends paid to owners of Kumba	27	**(5,144)**	–
Dividends paid to non-controlling shareholders	27	**(1,599)**	–
Interest-bearing borrowings raised		**–**	30
Interest-bearing borrowings repaid		**(4,500)**	(3,735)
		(11,304)	**(3,885)**
Net increase in cash and cash equivalents		**2,659**	7,309
Cash and cash equivalents at beginning of year	7	**10,665**	3,601
Foreign currency exchange loss/(gain) on cash and cash equivalents		**550**	(245)
Cash and cash equivalents at end of year	7	**13,874**	**10,665**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December

1. SEGMENT REPORTING

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

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

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

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

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

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

1. SEGMENT REPORTING continued

Rand million	Products[1] Sishen mine	Products[1] Kolomela mine	Products[1] Thabazimbi mine	Services Logistics[2]	Services Shipping operations	Other	Total[3]
2016							
Statement of profit or loss							
Revenue (from external customers)	26,644	10,764	612	–	2,747	–	40,767
EBITDA	16,186	7,481	47	(5,370)	(370)	436	18,410
Significant items in the statement of profit and loss:							
Depreciation	1,992	943	2	9	–	145	3,091
Impairment charge	–	–	4	–	–	–	4
Staff costs	3,045	738	62	29	–	717	4,591
Statement of financial position							
Total segment assets	606	163	–	651	–	58	1,478
Statement of cash flows							
Additions to property, plant and equipment							
Expansion capex	735	110	–	–	–	11	856
Stay-in-business capex	729	259	–	1	–	187	1,176
Deferred stripping	88	233	–	–	–	–	321

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

Rand million	Note	2017	2016
Reconciliation of reportable segments' assets to inventories			
Segment assets for reportable segments		**1,240**	1,478
Work-in-progress inventory, plant spares and stores		**5,662**	6,020
Work-in-progress inventory, plant spares and stores transferred to assets of disposal group classified as held for sale (note 20)		**–**	(5)
Inventories per statement of financial position	5	**6,902**	7,493

GEOGRAPHICAL ANALYSIS

Revenue from external customers (Rand million)

Non-current assets

All non-current assets, excluding investments in associates and joint ventures, are located in South Africa, with the exception of R14 million in the 2016 financial year which was located in Singapore relating 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
2017								
Cost								
Balance at beginning of year	295	621	3,457	5,411	32,937	7,026	4,296	54,043
Additions (refer to note 28)								
Capital acquisitions	–	–	–	–	26	–	1,854	1,880
Deferred stripping	–	–	–	–	–	1,194	–	1,194
Changes in decommissioning provision (refer to note 9)	–	–	–	(51)	(47)	145	(101)	(54)
Disposals and scrapping	–	–	(1)	–	(170)	–	(40)	(211)
Assets transferred from Thabazimbi[1]	–	–	–	–	10	–	–	10
Transfers between asset classes	(2)	–	19	722	798	167	(1,704)	–
Exchange differences on translation	–	–	–	–	*	–	-	–
Balance at 31 December 2017	293	621	3,475	6,082	33,554	8,532	4,305	56,862
Accumulated depreciation								
Balance at beginning of year	–	327	508	1,147	12,681	828	–	15,491
Depreciation	–	16	137	278	2,209	387	–	3,027
Notional depreciation on impairment charge	–	9	49	64	933	134	–	1,189
Disposals and scrapping	–	–	(1)	–	(120)	–	–	(121)
Exchange differences on translation	–	–	–	–	*	–	–	–
Balance at 31 December 2017	–	352	693	1,489	15,703	1,349	–	19,586
Impairment charge								
Balance at beginning of year	30	70	396	411	3,228	1,376	910	6,421
Notional depreciation on impairment charge	–	(9)	(49)	(64)	(933)	(134)	–	(1,189)
Impairment reversal	(30)	(61)	(338)	(347)	(2,291)	(812)	(910)	(4,789)
Balance at 31 December 2017	–	–	9	–	4	430	–	443
Carrying amount at 31 December 2017	293	269	2,773	4,593	17,847	6,753	4,305	36,833

[1] Non-cash transfers of property, plant and equipment from Thabazimbi mine to Sishen mine.
* 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
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 non-current assets 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 non-current assets 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								
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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

2. PROPERTY, PLANT AND EQUIPMENT continued

Reversal of impairment

Kumba produces iron ore at Sishen and Kolomela mines in the Northern Cape province. The two mines are treated as separate cash-generating units (CGUs). The Sishen CGU consists of the Sishen mining assets located in the Northern Cape and an allocation of corporate assets.

At 31 December 2015, the Sishen CGU was impaired by R6 billion, with an associated deferred tax credit of R1.7 billion as a result of a deterioration in the long-term outlook for iron ore prices, which led to a reconfiguration of the Sishen pit shell to improve cash flows. The carrying amount of the Sishen CGU at 31 December 2017, prior to the impairment adjustment, consisting of property, plant and equipment, was R19.4 billion. The remaining balance of the impairment, after deducting notional depreciation, was R4.8 billion, including the remaining balance of the associated deferred tax of R1.3 billion. Kolomela was never impaired.

During 2017, Sishen mine achieved improved levels of production and operating efficiencies. Additionally, whilst the long-term outlook for the iron ore price has remained broadly unchanged since 2015, the outlook for market conditions in the nearer term has improved. Consequently, the recoverable amount of Sishen mine has been assessed and the previous impairment reversed. The revised carrying value is now R24.2 billion and was increased by R4.8 billion (R2.6 billion after tax and non-controlling interests).

The recoverable amount, based on discounted cash flows, is sensitive to changes in input assumptions particularly in relation to future iron ore prices and Rand/US$ exchange rates. For example, a US$5/tonne increase or decrease in the long-term price forecast for iron ore equates to a R3.2 billion increase or R3.5 billion decrease in the recoverable amount. The recoverable amount has been assessed under a range of valuation scenarios, incorporating downside adjustments to both operating and economic assumptions, all of which indicate headroom over the revised carrying value of R24.2 billion. For example, under the most conservative long-term downside case, the headroom is R6.7 billion.

Cash flow projections were determined for the life of the Sishen mine. Inputs into the discounted cash flow model were based on economic assumptions and forecast trading conditions drawn up by management. To the extent that specific risk factors were not incorporated into the discount rate, adjustments were made to the cash flow projections.

Of this reversal, R368 million has been recorded against land and buildings, R347 million against buildings and infrastructure, R2.3 billion against machinery, plant and equipment, R812 million against site preparation and development, R910 million against assets under construction and R61 million against mineral rights.

Sensitivity analyses were performed to determine whether a reasonable possible change in any of the key assumptions would result in an additional impairment, partial reversal or no reversal of the previous impairment. Reasonable downward changes in any of the key assumptions would still provide sufficient headroom to support full reversal of the impairment recognised in 2015.

Borrowing costs

No borrowing costs were capitalised during the year. In 2016, R230 million was capitalised.

Additional disclosures

The group generated proceeds from the disposal of items of property, plant and equipment of R27.4 million (2016: R9 million).

The estimated replacement value of assets for insurance purposes and assets under construction at cost amounts to R62 billion (2016: R62 billion).

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

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

Rand million	2017	2016
Capital commitments		
Capital commitments include all items of capital expenditure for which specific Board approval has been obtained up to statement of financial position date. Capital expenditure will be financed principally from 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 plant and equipment	**597**	644
Capital expenditure authorised for plant and equipment but not contracted	**1,634**	2,208

3. INVESTMENTS HELD BY ENVIRONMENTAL TRUST

Rand million	2017	2016
Balance at beginning of year	**855**	**818**
Growth in environmental trusts	**97**	37
Balance at end of year (including discontinued operation)	**952**	855
Transferred to assets of disposal group classified as held for sale (note 20)	**(325)**	(296)
Balance at end of year (excluding discontinued operation)	**627**	**559**
Comprising:	**627**	559
Equity	**236**	182
Cash	**155**	353
Bonds	**236**	24
Portion related to Thabazimbi comprising:	**325**	296
Equity	**325**	77
Cash	**–**	181
Bonds	**–**	38

The trust's investment activities are managed by Old Mutual Investment Group (South Africa) Proprietary Limited. 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 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	2017	2016
Long-term receivable[1]	**557**	518
Prepayments	**113**	81
Balance at end of year (including discontinued operation)	**670**	**599**
Transferred to assets of disposal group classified as held for sale (note 20)	**(459)**	(515)
Balance at end of year (excluding discontinued operation)	**211**	**84**

[1] 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. A receivable of R206 million (2016: R96 million) for the rehabilitation of Thabazimbi mine was reclassified to current.

	2017	2016
Maturity profile of long-term prepayments and other receivables		
1 to 2 years	**104**	–
2 to 5 years	**38**	84
More than 5 years	**69**	–
	211	84
Maturity profile of long-term prepayments and other receivables related to Thabazimbi		
1 to 2 years	**130**	320
2 to 5 years	**329**	133
More than 5 years	**–**	62
	459	515

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

5. INVENTORIES

Rand million	2017	2016
Finished products	**1,240**	1,478
Work-in-progress	**4,238**	4,466
Plant spares and stores	**1,424**	1,554
Current inventory transferred to assets of disposal group classified as held for sale (note 20)	**–**	(5)
Total inventories	**6,902**	**7,493**
Non-current portion of work-in progress inventories	**2,841**	2,889
Total current inventories	**4,061**	4,604
Total inventories	**6,902**	**7,493**

During the year, the group wrote down inventory of R726 million. R228 million (2016: R8 million) of inventory was written off to zero carrying value. No inventories were encumbered during the year.

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

6. TRADE AND OTHER RECEIVABLES

Rand million	2017	2016
Trade receivables	**1,420**	4,038
Other receivables	**1,651**	1,244
Allowance for doubtful debts – other receivables	**(1)**	(20)
Net trade and other receivables	**3,070**	5,262
Prepayments	**79**	87
Balance at year end (including discontinued operation)	**3,149**	**5,349**
Other receivables transferred to assets of disposal group classified as held for sale (note 20)	**(440)**	(96)
Balance at year end (excluding discontinued operation)	**2,709**	**5,253**

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

R1,056 million (2016: R1,226 million) or 39% (2016: 61%) of the total outstanding trade receivables balance of R1,420 million (2016: R4,038 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 2017.

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	2017	2016
Trade receivables credit risk exposure by geographical area		
South Africa	**250**	356
Europe	**44**	784
Asia	**1,126**	2,898
	1,420	**4,038**
Trade receivables credit risk exposure by currency		
Rand	**250**	356
US Dollar	**1,170**	3,682
	1,420	**4,038**
Ageing of trade receivables		
Not past due	**1,420**	4,037
Past due 31 to 60 days but not impaired	**–**	–
Past due more than 90 days but not impaired	**–**	1
	1,420	**4,038**

A provision for doubtful debt of R1 million (2016: R20 million) was raised against the sundry debtor's balance.

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

Other receivables

Other receivables mainly comprise of a VAT receivable of R1,080 million (2016: R618 million) and a receivable of R206 million relating to the recovery of the short-term rehabilitation costs of Thabazimbi mine from ArcelorMittal SA, and retrenchment costs of R2 million in the 2016 financial year.

7. CASH AND CASH EQUIVALENTS

Rand million	2017	2016
Bank balance and cash	**13,630**	10,078
Broker margin accounts – derivatives	**244**	587
Cash and cash equivalents	**13,874**	**10,665**

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

Rand million	2017	2016
Currency analysis of cash and cash equivalents		
Rand	**7,146**	7,675
US Dollar	**6,718**	2,984
Euro	**6**	4
Other	**4**	2
	13,874	**10,665**

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).

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for the year ended 31 December

8. INTEREST-BEARING BORROWINGS

Rand million	2017	2016
Long-term interest-bearing borrowings	–	4 500
Reconciliation		
Balance at beginning of year	4,500	8,205
Interest-bearing borrowings raised	–	30
Interest-bearing borrowings repaid	(4,500)	(3,735)
	–	4,500
Maturity profile of interest-bearing borrowings		
Within 1 year	–	–
2 to 5 years	–	4,500
	–	4,500

				Outstanding balance	
Rand million	Maturity date	Interest rate at 31 December	Facility	2017	2016
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	2017: Not applicable 2016: Not applicable	12, 000	–	–
Term facility	n/a	2017: Not applicable 2016: 9.11%	–	–	4,500
Call loan facility at floating call rates[1]	Open	2017: Not applicable 2016: Not applicable	8,320	–	–
Fair value at end of year			20,320	–	4,500
Carrying value at end of year			20,320	–	4,500

[1] No amount from this facility was drawn down in 2017. This is a facility with a related party, refer to note 33.

The group's committed debt facilities of R12 billion (revolving facility) mature in 2020. The group had undrawn committed facilities of R12 billion (31 December 2016: R12 billion) and uncommitted facilities of R8.3 billion (31 December 2016: R8.3 billion).

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	Decommis-sioning	Other	Total
Non-current provisions	**39**	**2,305**	**319**	**9**	**2,672**
Current portion of provisions	**2**	**231**	**145**	**6**	**384**
Transferred to liabilities of disposal group classified as held for sale	**–**	**(1,034)**	**(15)**	**–**	**(1,049)**
Total provisions	**41**	**1,502**	**449**	**15**	**2,007**
2017					
Balance at beginning of the year	**37**	**2,372**	**478**	**180**	**3,067**
Unwinding of discount (refer to note 17)	**–**	**158**	**40**	**–**	**198**
Increase in provision charged to the statement of profit and loss	**11**	**147**	**–**	**–**	**158**
Unused amounts reversed	**–**	**–**	**–**	**(165)**	**(165)**
Exchange differences on translation	**(5)**	**–**	**–**	**–**	**(5)**
Capitalised to property, plant and equipment (refer to note 2)	**–**	**–**	**(54)**	**–**	**(54)**
Utilised during the year	**(2)**	**(141)**	**–**	**–**	**(143)**
Transferred to liabilities of disposal group classified as held for sale (refer to note 20)	**–**	**(1,034)**	**(15)**	**–**	**(1,049)**
Balance at 31 December 2017	**41**	**1,502**	**449**	**15**	**2,007**
Expected timing of future cash flows					
Within 1 year	**2**	**231**	**145**	**6**	**384**
2 to 5 years	**39**	**–**	**–**	**9**	**48**
More than 5 years	**–**	**1,271**	**304**	**–**	**1,575**
	41	**1,502**	**449**	**15**	**2,007**
Estimated undiscounted obligation	**41**	**3,651**	**588**	**15**	**4,295**
2016					
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**
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 the statement of profit and loss	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 (refer to note 20)	–	(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**

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for the year ended 31 December

9. PROVISIONS continued

Cash-settled share-based payments

At 31 December 2017, the current provision represents amounts payable to deceased beneficiaries on the Envision phase 2 share scheme. 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 R952 million at 31 December 2017 of which R325 million, relating to the Thabazimbi mine, will potentially transfer to ArcelorMittal SA on conclusion of the sale agreement (2016: R296 million).

Other

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

Significant accounting estimates and assumptions

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

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

Rand million	Environmental rehabilitation	Decommissioning	Total
Change in provision	77	(199)	**(122)**
Revised estimates of closure costs	229	(76)	**153**
Expected timing of future cash flows	(152)	(123)	**(275)**

The change in expected timing of future cash flows, which decreased the closure provisions by R275 million, is the result of the revision of the LoMP for Sishen and Kolomela. The R199 million decrease in the decommissioning provision was capitalised to property, plant and equipment whereas the R77 million decrease was recognised to the statement of profit and loss increasing the profits attributable to the owners of Kumba by R42 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 R187 million (2016: R208 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 R220 million (2016: R242 million).

10. DEFERRED TAX

Rand million	2017	2016
Deferred tax assets		
Reconciliation		
Balance at beginning of year	**87**	1
Current year utilisation	**(87)**	–
Recognition of deferred tax asset on assessed loss	**72**	86
	72	**87**
Expected timing		
Deferred tax assets to be recovered within 12 months	**72**	87
	72	**87**
Deferred tax assets attributable to the following temporary differences:		
Estimated tax losses	**72**	87
Total deferred tax assets	**72**	**87**

There is R2 billion of unused tax losses for which no deferred tax asset was recognised at 31 December 2017 (2016: R2.4 billion). The deferred tax asset recognised is based on expected tax profits for the 2018 financial year.

Rand million	2017	2016
Deferred tax liabilities		
Reconciliation		
Balance at beginning of year	**7,462**	7,680
Discontinued operation – prior year adjustment	**–**	(14)
Continuing operation – prior year adjustment	**27**	(10)
Discontinued operation – current year charge	**–**	335
Continuing operation – current year charge	**1,371**	(529)
	8,860	**7,462**
Deferred tax liabilities attributable to the following temporary differences:		
Property, plant and equipment	**9,446**	8,050
Environmental rehabilitation provision	**(750)**	(655)
Decommissioning provision	**(66)**	(55)
Environmental rehabilitation trust asset	**267**	239
Leave pay accrual	**(72)**	(61)
Other	**35**	(56)
Total deferred tax liabilities	**8,860**	**7,462**

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for the year ended 31 December

11. TRADE AND OTHER PAYABLES

Rand million	2017	2016
Trade payables	**3,911**	2,959
Other payables	**781**	563
Leave pay accrual	**253**	219
	4,945	**3,741**
Currency analysis of trade and other payables		
Rand	**4,257**	3,346
US Dollar	**687**	391
Euro	**1**	4
	4,945	**3,741**

Other payables includes a short-term incentive accrual of R390 million (2016: R408 million).

12. REVENUE

Rand million	2017	2016
Sale of iron ore	**41,975**	37,408
Services rendered – shipping	**4,404**	2,747
	46,379	**40,155**
Sales by destination		
Domestic – South Africa	**2,714**	2,250
Export	**43,665**	37,905
China	**27,260**	25,054
Rest of Asia	**8,538**	7,730
Europe	**6,626**	4,846
Middle East and North Africa	**1,241**	275
	46,379	**40,155**

13. OPERATING EXPENSES

Rand million	Notes	2017	2016
Operating expenditure by function			
Production costs		**17,367**	16,282
Movement in work-in-progress inventories		**228**	(452)
Cost of goods produced		**17,595**	15,830
Movement in finished product inventories		**224**	84
Net finance losses/(gains)	16	**216**	(657)
Other		**241**	194
Cost of goods sold		**18,276**	15,451
Impairment reversal	2	**(4,789)**	–
Mineral royalty[1]		**1,239**	963
Selling and distribution costs		**5,815**	5,379
Distribution costs		**5,754**	5,227
Selling costs		**61**	152
Cost of services rendered – shipping		**4,485**	3,115
Sub-lease rentals received		**(37)**	(27)
Operating expenses		**24,989**	**24,881**

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

13. OPERATING EXPENSES continued

Rand million	Notes	2017	2016
Cost of goods sold comprises:			
Staff costs		**4,182**	4,529
Salaries and wages		**3,640**	3,117
Equity-settled share-based payments		**135**	638
Cash-settled share-based payments		**11**	9
Termination benefits		**8**	384
Pension and medical aid contributions	15	**388**	381
Outside services		**3,597**	3,075
Raw materials and consumables		**2,576**	2,776
Deferred stripping costs capitalised		**(1,194)**	(321)
Depreciation of property, plant and equipment	2	**3,014**	3,089
Mineral properties		**16**	16
Residential buildings		**139**	137
Buildings and infrastructure		**278**	250
Machinery, plant and equipment		**2,195**	2,338
Mineral exploration, site preparation and development		**386**	348
Repairs and maintenance		**2,213**	1,668
Legal		**(7)**	29
Professional fees		**156**	119
Technical services and project studies		**97**	128
General expenses		**2,664**	1,142
Net finance losses/(gains)	16	**216**	(657)
Energy costs		**376**	339
Own work capitalised		**(66)**	(97)
Net movement in finished product and work-in-progress inventories		**452**	(368)
Cost of goods sold		**18,276**	**15,451**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

14. SIGNIFICANT ITEMS INCLUDED IN OPERATING PROFIT

Rand million	2017	2016
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	**3,963**	3,442
Net restructuring costs	**8**	384
Share-based payments expenses	**146**	647
Directors' emoluments (refer to note 35)	**80**	32
Executive directors		
Emoluments received as directors of the Company	**68**	16
Bonuses and cash incentives (outstanding)	**5**	10
Non-executive directors – emoluments received as directors of the Company	**7**	6
Prescribed officers remuneration (excluding executive directors – refer to note 35)	**54**	46
Depreciation of property, plant and equipment (refer to note 2)	**3,014**	3,089
Impairment reversal	**(4,789)**	–
Operating lease rental expenses		
Equipment	**68**	80
Property	**97**	89
Auditors' remuneration		
Audit fees	**9**	9
Other services	**3**	1
Research and development cost	*****	1
Gain on lease receivable	**–**	(164)
Net loss on disposal or scrapping of property, plant and equipment	**63**	191
Operating sub-lease rentals received		
Property	**(37)**	(27)

* Value is less than R1 million.

15. EMPLOYEE BENEFITS: DEFINED CONTRIBUTION FUNDS

15.1 Retirement fund

At the end of 2017 and 2016, 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:

	2017		2016	
	Working members (number)	**Employer contributions (Rand million)**	Working members (number)	Employer contributions (Rand million)
Kumba Iron Ore Selector Pension and Provident Funds	**2,404**	**141**	2,225	133
Iscor Employees Umbrella Provident Fund	**3,095**	**101**	3,124	106
Total	**5,499**	**242**	**5,349**	**239**

Due to the nature of these funds, the accrued liabilities equates 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 R146 million (2016: R151 million). The group has no obligation to fund post-retirement medical aid contributions for current or retired employees.

16. NET FINANCE LOSSES/(GAINS)

Rand million	2017	2016
Finance losses/(gains) recognised in operating profit		
Net gains on derivative financial instruments		
Realised[1]	**–**	(420)
Unrealised	**(112)**	(570)
Net foreign currency losses		
Realised	**310**	286
Unrealised	**77**	69
Fair value gains on investments held by the environmental trust	**(59)**	(22)
	216	**(657)**

[1] The realised gains/losses on derivative financial instruments have been reclassified from operating expenses to revenue in the current year. The prior year impact is not considered to be material and therefore the prior year amounts have not been reclassified.

17. NET FINANCE (INCOME)/COSTS

Rand million		2017	2016
Interest expense – borrowings		**175**	581
Unwinding of discount on provisions[1]	9	**164**	145
Capitalisation of borrowing costs	2	**–**	(230)
Finance costs		**339**	496
Interest received on cash and cash equivalents		**(637)**	(295)
Net finance (income)/costs		**(298)**	**201**

[1] This amount is net of the Thabazimbi discounting of the rehabilitation provision of R34 million as disclosed in note 20.

18. TAXATION

Rand million	2017	2016
Taxation expense		
Current taxation	**4,068**	4,560
Deferred taxation	**1,413**	(626)
	5,481	**3,934**
Charges/(release) to the statement of profit and loss		
South African normal taxation		
Current year	**4,045**	3,571
Prior year	**(75)**	960
Foreign taxation		
Current year	**98**	29
Income taxation	**4,068**	4,560
Deferred taxation		
Current year	**1,386**	(619)
Prior year	**27**	(7)
	5,481	**3,934**
Reconciliation of taxation rates	**%**	%
Taxation as a percentage of profit before taxation	**25.3**	26.4
Taxation effect of:		
Disallowable expenditure[1]	**(0.1)**	(0.1)
Exempt income[1]	**0.5**	–
Rate difference between South African and foreign subsidiaries	**1.9**	7.1
Prior year under/(over) provision	**0.3**	(6.3)
Equity-settled share-based payments	**(0.2)**	0.3
Unprovided tax losses – recognised	**0.3**	0.6
Standard taxation rate	**28.0**	**28.0**

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

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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	**2017**	2016
Profit attributable to equity holders of Kumba	**12,335**	8,621
Number of shares		
Weighted average number of ordinary shares in issue	**319,302,962**	319,520,658
Potential dilutive effect of outstanding share options[1]	**2,178,119**	1,642,865
Diluted weighted average number of ordinary shares in issue	**321,481,081**	**321,163,523**

[1] The dilution adjustment of 2,178,119 shares at 31 December 2017 (2016:1,642,865) is a result of the vesting of share options previously granted under the various employee share incentive schemes.

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:

	2017		2016	
Rand million	**Gross adjustment**	**Net attributable**	Gross adjustment	Net attributable
Profit attributable to equity holders of Kumba	**12,335**	**12,335**	8,621	8,621
Impairment (reversal)/charge	**(4,789)**	**(2,650)**	4	2
Net loss on disposal or scrapping of property, plant and equipment[1]	**63**	**43**	186	101
	7,609	**9,728**	8,811	8,724
Taxation effect of adjustments	**1,309**		(54)	
Non-controlling interest in adjustments	**810**		(33)	
Headline earnings	**9,728**	**9,728**	**8,724**	**8,724**

[1] The 2016 amounts are calculated after deducting a gain of R5 million relating to Thabazimbi mine.

Rand	**2017**	2016
Attributable earnings per share		
Basic	**38.63**	26.98
Diluted	**38.37**	26.84
Headline earnings per share		
Basic	**30.47**	27.30
Diluted	**30.26**	27.16

19. EARNINGS AND HEADLINE EARNINGS PER SHARE continued

Normalised earnings

Rand million	2017	2016
Reconciliation of normalised earnings		
Headline earnings attributable to owners of Kumba	**9,728**	8,724
Net utilisation/(recognition) of deferred tax asset[1]	**14**	(87)
	9,742	**8,637**
Taxation effect of adjustments	**–**	–
Non-controlling interest in adjustments	**(3)**	21
Normalised earnings	**9,739**	**8,658**
Normalised earnings (Rand per share)		
Basic	**30.50**	27.10
Diluted	**30.30**	26.96
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	**319,302,962**	319,520,658
Diluted weighted average number of ordinary shares	**321,481,081**	321,163,523

[1] The 2017 amount includes the utilisation of prior year deferred tax asset of R87 million (2016: Rnil).

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 continues to be classified as a discontinued operation for the year ended 31 December 2017, consistent with the prior year. Analysis of the result of the Thabazimbi mine is as follows:

Rand million	2017	2016
Revenue	**–**	612
Operating expenses	**(69)**	(571)
Operating (loss)/profit	**(69)**	41
Net finance income/(loss)[1]	**(34)**	4
(Loss)/profit before tax	**(103)**	**45**
Taxation	**29**	(42)
(Loss)/profit after tax of discontinued operation	**(74)**	**3**
Attributable to the owners of Kumba	**(56)**	2
Attributable to the non-controlling interest	**(18)**	1
(Loss)/profit after income tax of discontinued operation	**(74)**	**3**
Cash flow (utilised in)/from discontinued operation		
Net cash flows (utilised in)/from operating activities	**(128)**	**279**

[1] This amount relates to discounting of the rehabilitation provision.

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

As previously reported, SIOC and ArcelorMittal SA entered into an agreement for the transfer of Thabazimbi mine, together with the mining right to ArcelorMittal SA. The agreement is expected to become effective in 2018, subject to certain conditions. 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 all conditions precedent have not been satisfied by 31 March 2018 (or a later date agreed to between the parties), the agreement will lapse and SIOC will proceed with closure of the mine.

The requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* have been considered and as a result, the Thabazimbi mine assets and related liabilities that will transfer to ArcelorMittal SA have been presented as assets and liabilities held for sale as at 31 December 2017.

Assets and liabilities of disposal group held for sale

Rand million	2017	2016
ASSETS		
Property, plant and equipment	–	8
Biological assets	11	18
Investments held by environmental trust (refer to note 3)	325	296
Long-term prepayments and other receivables (refer to note 4)	459	515
Inventories (refer to note 5)	–	5
Trade and other receivables (refer to note 6)	440	96
Total assets	**1,235**	**938**
LIABILITIES		
Non-current provisions	(812)	(822)
Current provisions	(237)	(114)
Total liabilities	**(1,049)**	**(936)**
Net carrying amount	**186**	**2**

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

Number of shares	2017	2016
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 2017 and 2016.

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

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

Reconciliation of treasury shares held

Number of shares	2017	2016
Number of treasury shares at beginning of year	**2,797,627**	1,109,732
Number of shares purchased	**284,194**	2,140,891
Shares issued to employees under the Long-Term Incentive Plan and Kumba Bonus Share Plan	**(454,844)**	(452,996)
Number of treasury shares at end of year	**2,626,977**	**2,797,627**

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 2017, all treasury shares are held as conditional share awards under the Kumba Bonus Share Plan.

Rand million	2017	2016
Reconciliation of share capital and premium (net of treasury shares)		
Balance at beginning of year	**(114)**	(131)
Net movement in treasury shares under employee share incentive schemes	**60**	17
Purchase of treasury shares employee share incentive schemes[1]	**(61)**	(180)
Shares issued to employees under employee share incentive schemes	**121**	197
	(54)	**(114)**
Comprises		
Share capital	**3**	3
Share premium	**364**	364
Treasury shares	**(421)**	(481)

[1] The average price paid for the purchase of the shares in 2017 was R214.77 per share (2016: R83.90 per share).

22. EQUITY-SETTLED SHARE-BASED PAYMENTS RESERVE

Rand million	2017	2016
Balance at beginning of year	**172**	2,021
Equity-settled share-based payments expense	**135**	513
Employee share incentive schemes:		
– Envision phase 2	**–**	541
– Bonus Share Plan (BSP)	**43**	93
– Long-Term Incentive Plan (LTIP)	**92**	4
Non-controlling interest	**–**	(125)
Change in effective ownership of SIOC	**–**	(20)
Vesting of shares under employee share incentive schemes	**(121)**	(2,342)
Balance at end of year	**186**	**172**

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.

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for the year ended 31 December

23. NON-CONTROLLING INTEREST

Rand million	2017	2016
Balance at beginning of year	**8,686**	5,847
Profit for the year	**3,798**	2,523
Exxaro	**3,303**	2,194
SIOC Community Development Trust	**495**	329
Dividends paid	**(1,599)**	–
Exxaro	**(1,391)**	–
SIOC Community Development Trust	**(208)**	–
Interest in movement in equity reserves	**(108)**	71
Equity-settled share-based payments reserve	**–**	125
Foreign currency translation reserve	**(108)**	(54)
Change in effective ownership of SIOC (Envision)	**–**	245
Balance at end of year	**10,777**	**8,686**

Details relating to non-controlling interests are disclosed in note 33.

24. CASH GENERATED FROM OPERATIONS

Rand million	2017	2016
Operating profit (including discontinued operation)	**21,320**	15,315
Adjusted for:		
Depreciation of property, plant and equipment	**3,027**	3,091
Movement in provisions	**(150)**	(92)
Unrealised foreign currency revaluations and fair value adjustments	**(896)**	(272)
Gain on lease receivable	**–**	(164)
Loss on disposal or scrapping of property, plant and equipment	**63**	186
Impairment (reversal)/charge	**(4,789)**	4
Dividend received from investments	**–**	(2)
Movement in non-current financial assets and prepayments	**(78)**	6
Equity-settled share-based payments expenses	**135**	638
Cash flows from operations	**18,632**	18,710
Working capital movements		
Decrease in inventories	**583**	92
Decrease/(increase) in trade and other receivables	**1,946**	(1,970)
Increase in trade and other payables	**1,271**	386
	22,432	**17,218**

25. NET FINANCE COSTS PAID

Rand million	Note	2017	2016
Net financing costs as per the statement of profit and loss		**(298)**	201
Finance costs paid/(income received) by discontinued operation		**35**	(4)
Capitalisation of borrowing costs[1]		**–**	230
Adjusted for:			
Notional interest on provisions	9	**(198)**	(145)
Movement in interest payable and other non-cash movements		**–**	(8)
Movement in interest receivable		**–**	45
		(461)	**319**
Finance cost received		**(637)**	(254)
Finance cost paid		**176**	573
		(461)	**319**

[1] The group had no external debt during 2017, therefore no borrowings costs were capitalised.

26. TAXATION PAID

Rand million	2017	2016
Taxation liabilities at beginning of year	**1,906**	986
Income taxation per the statement of profit and loss (refer to note 18)	**4,068**	4,560
Income taxation per for the discontinued operation	**(29)**	(278)
Translation of taxation for foreign operations	**(3)**	1
Taxation liabilities at end of the year	**(59)**	(1,906)
Taxation paid per the statement of cash flow	**5,883**	**3,363**
Comprising normal taxation:		
South Africa	**5,883**	3,363
	5,883	**3,363**

27. DIVIDENDS PAID

Rand million	2017	2016
Dividends paid to owners of Kumba	**(5,144)**	–
Dividends per the statement of changes in equity	**(5,144)**	**–**
Dividends paid to non-controlling shareholders	**(1,599)**	–
Dividends per the statement of changes in equity	**(1,599)**	**–**

28. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Rand million	2017	2016
Investment to expand operations	**575**	856
Investments to maintain operations	**1,305**	1,176
Deferred stripping costs capitalised	**1,194**	321
Additions per the statement of cash flows	**3,074**	**2,353**

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for the year ended 31 December

29. GUARANTEES AND REGULATORY UPDATE

Rand million	2017	2016
Guarantees		
Environmental trust closure liability guarantees to the DMR	**2,806**	2,779
Guarantees provided to BNP Paribas	**275**	275
Operational guarantees to the DMR	**21**	26
	3,102	**3,080**

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 (2016: R2.8 billion). Included in this amount are financial guarantees for the environmental rehabilitation and decommissioning obligations of the group in respect of Thabazimbi mine of R439 million (2016: R439 million). ArcelorMittal SA has guaranteed R439 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 R216 million arose. Guarantees for the shortfall will be issued in due course.

29.2 Mining Charter

The Reviewed Mining Charter (MCIII)

On 15 June 2017, the DMR published its Reviewed Mining Charter 2017 (MCIII). Kumba expressed its concern that the MCIII was not concluded through agreement between the DMR and all relevant stakeholders, including the mining industry, despite the best efforts of those stakeholders over the preceding year.

Kumba is supportive of the legal action followed by the Chamber of Mines, with the ultimate objective of arriving at a negotiated solution that is practical to implement, and that preserves and enhances investment in what is a critically important industry for South Africa. Kumba welcomed the DMR's written undertaking that the provisions of the 2017 Reviewed Mining Charter will not be implemented or applied in any way, pending judgment in application brought by the Chamber of Mines. Kumba will continue to engage through the Chamber of Mines. The hearing on the Chamber's Declarator on the 'once empowered always empowered' issue was heard in November 2017, with the outcome expected after 90 days. The hearing on the review of the Mining Charter has been set for 19 to 21 February 2018.

29.3 21.4% undivided share of the Sishen mining rights

Sishen's application, in terms of section 102 of the Mineral and Petroleum Resources Development Act 28 of 2002, to extend the Sishen mining right by the inclusion of the adjacent SIOC Prospecting Rights was granted on 6 July 2017 and the process to amend the Sishen mining right continues. Mining operations in this area will only commence once the required environmental authorisation, in terms of the National Environmental Management Act 1998 (Act 107 of 1998), has been approved, which is expected soon. The grant allows Sishen mine to expand its current mining operations within the adjacent Dingleton area.

30. COMMITMENTS

Rand million	2017	2016
Operating lease commitments		
The future minimum lease payments under non-cancellable operating leases are as follows:		
Property		
Within 1 year	**87**	27
Between 1 and 2 years	**123**	52
2 to 5 years	**179**	5
More than 5 years	**360**	–
	749	**84**
Plant and equipment		
Within 1 year	**26**	5
Between 1 and 2 years	**8**	–
2 to 5 years	**11**	–
	45	5
Total operating lease commitments	**794**	**89**

Shipping commitments

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

31. CONTINGENT LIABILITIES

The two matters which were reported as contingent liabilities at 31 December 2016, being the South African Revenue Service matter and the matter regarding the Sishen municipal rates and taxes, were resolved during the year. There were no contingent liabilities at 31 December 2017.

32. EVENTS AFTER THE REPORTING PERIOD

32.1 Dividends

A final cash dividend of R15.00 per share was declared by the Board on 13 February 2018 from profits accrued during the financial year ended 31 December 2017. The total cash dividend for the year amounted to R30.97 per share. The estimated total cash flow of the final Kumba dividend, payable on 12 March 2018 is R4.8 billion.

32.2 Other

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

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 pages 99 and 100.

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 Proprietary Limited and corporate office recharges for services performed.

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

Holding company

ASAC holds a 69.71% interest in the Company (2016: 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% (2016: 20.62%) Black Economic Empowerment shareholder. Details of dividends paid to Exxaro as well as its proportionate share of earnings for the year is detailed in note 23.

Special purpose entities

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

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

Directors, senior management and prescribed officers

Details relating to directors' and the group's Executive Committee remuneration and shareholdings (including share options) are disclosed in note 35.

33. RELATED-PARTY TRANSACTIONS continued

Material related-party transactions

Rand million	2017	2016
Purchase of goods and services and finance charges		
Subsidiaries of ultimate holding company	**4,462**	3,114
Shipping services	**4,462**	3,107
Finance cost	**–**	7
Fellow subsidiaries	**542**	593
Corporate operations (including shared services)	**421**	406
Aircraft services	**1**	47
Research	**120**	140
Entities with significant influence over SIOC[1]	**135**	97
	5,139	**3,804**
Sale of goods and services and finance income		
Subsidiaries of ultimate holding company[2]		
Finance income	**577**	262
Services	**3**	34
	580	**296**
Amounts owing to related parties (after eliminating inter-company balances)		
Trade payables		
Subsidiaries of ultimate holding company	**665**	282
Anglo Operations Limited	**25**	15
	690	**297**
Amounts owing by related parties (after eliminating inter-company balances)		
Subsidiaries of ultimate holding company	**11,864**	9,480
Interest receivable	**55**	56
Cash and cash equivalents	**11,806**	9,421
Trade receivables	**3**	3
Associates and joint ventures		
Loans	**111**	111
	11,975	**9,591**

[1] Goods were purchased from Exxaro and consisted mainly of ferrosilicon.

[2] Interest was earned at an average rate of 7.17% (2016: between 6.7% and 7.02%) 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	2017	2016
Shipping services commitments		
The future commitments under contracts for affreightment are as follows:		
Within 1 year	**1,204**	1,159
Between 1 and 2 years	**1,231**	1,393
2 to 5 years	**2,758**	4,136
More than 5 years	**67**	2,004
	5,260	**8,692**

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%

Rand million	2017	2016
Profit for the year allocated to non-controlling interest	**3,798**	2,523
Accumulated non-controlling interests at 31 December	**10,777**	8,686

Summarised financial information of SIOC:

Rand million	2017	2016
Statement of profit and loss		
Revenue	**39 521**	33 638
Operating expenses	**(20,645)**	(23,069)
Operating profit	**18,876**	10,569
Net financing income/(expense)	**183**	(235)
Income from investments	**1,889**	2,381
Profit before taxation	**20,948**	12,715
Taxation	**(5,272)**	(4,010)
Profit for the year	**15,676**	**8,705**
Statement of financial position		
Non-current assets (including assets of disposal group classified as held for sale)	**44,357**	38,450
Current assets (including assets of disposal group classified as held for sale)	**16,474**	16,995
Total assets	**60,831**	**55,445**
Shareholders' equity	**44,500**	34,897
Non-current liabilities (including liabilities of disposal group classified as held for sale)	**12,103**	15,185
Current liabilities (including liabilities of disposal group classified as held for sale)	**4,228**	5,363
Total equity and liabilities	**60,831**	**55,445**
Statement of cash flows		
Cash flows from operating activities	**19,100**	13,859
Cash flows utilised in investing activities	**(3,047)**	(2,343)
Cash flows utilised in financing activities	**(4,841)**	(4,862)
Net increase in cash and cash equivalents	**11,212**	**6,654**

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

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

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

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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)[1] Designated as FVTPL	Amortised cost Loans and receivables	Total
2017				
Financial assets				
Investments held by the environmental trust[2]	**3**	**952**	**–**	**952**
Trade receivables	**6**	**–**	**1,420**	**1,420**
Other receivables (excluding VAT and prepayments)[2]	**4, 6**	**–**	**1,128**	**1,128**
Cash and cash equivalents	**7**	**–**	**13,874**	**13,874**
Financial liabilities				
Trade payables	**11**	**–**	**(3,911)**	**(3,911)**
Other payables	**11**	**–**	**(781)**	**(781)**
		952	**11,730**	**12,682**
2016				
Financial assets				
Investments held by the environmental trust[2]	3	855	–	**855**
Trade receivables	6	–	4,038	**4,038**
Other receivables (excluding VAT and prepayments)[2]	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**

[1] The group had no financial assets and financial liabilities held for trading for the year ended 31 December 2017 and 31 December 2016.

[2] 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 rating fall within the credit rating guidelines of the group's policy are approved by the Chief financial officer and for counterparties with ratings outside of the policy guidelines, the limits must be approved by the Board.

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	2017	2016
Trade receivables[1]	6	**1,420**	4,038
Cash and cash equivalents	7	**13,874**	10,665
Investment made by the environmental trust[2]	3	**952**	855
Other receivables[3]	6	**1,128**	1,144
Guarantees issued in favour of the group		**730**	730

[1] The decrease in trade and other receivables is mainly due to an increase in collections in December 2017, compared to prior years.

[2] Includes amounts transferred to assets of disposal group classified as held for sale.

[3] Other receivables include the long and short-term, contractual obligation of ArcelorMittal SA for the rehabilitation of Thabazimbi mine 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.

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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 2017 of R12 billion and R8.3 billion respectively (2016: R16.5 billion and R8.3 billion respectively).

Financial guarantees issued to third parties need to be approved by the group's Executive Committee up to R500 million, and by the Board if the value exceeds R500 million. The group has not issued any financial guarantees in the current year (2016: Rnil).

Maturity profile of the group's financial liabilities

Rand million	Notes	Within 1 year	1 to 2 years	3 or more years	Total
2017					
Financial liabilities					
Trade payables	11	**3,911**	**–**	**–**	**3,911**
Other payables	11	**781**	**–**	**–**	**781**
		4,692	**–**	**–**	**4,692**
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**

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

It is the group's policy to be fully exposed to operating cost and revenue currency risk, i.e. not to hedge foreign currency operating costs and revenues. The objective of managing currency risk on capital expenditure is to broadly offset foreign currency capital expenditure with the future streams of foreign currency denominated revenues, i.e. natural or economic hedging. Net US 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 2017 of US$1: R13.30 (2016: US$1: R14.69) has been used to translate the statement of profit or loss and statement of cash flows, whilst the statement of financial position has been translated at the closing rate at the last day of the reporting year using an exchange rate of US$1: R12.31 (2016: US$1: R13.73) The group's financial instrument exposure to currency risk, excluding derivatives, is summarised below:

Rand million	Notes	Rand	US Dollar	Euro	Other
2017					
Financial assets					
Investments held by the environmental trust[1]	3	**952**	**–**	**–**	**–**
Trade receivables	6	**250**	**1,170**	**–**	**–**
Other receivables (excluding VAT and prepayments)	4, 6	**1,128**	**–**	**–**	**–**
Cash and cash equivalents	7	**7,146**	**6,718**	**6**	**4**
Financial liabilities					
Trade and other payables	11	**(4,004)**	**(687)**	**(1)**	**–**
Net exposure		**5,472**	**7,202**	**5**	**4**
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**

[1] 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$ denominated financial instrument balances at 31 December 2017. The analysis has been performed on the same basis for 2016.

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

34.4.1 Foreign exchange risk continued

	Impact on total comprehensive income and shareholders' equity	
Rand million	**Increase**	**Decrease**
2017		
US Dollar	**360**	**(360)**
2016		
US Dollar	**314**	**(314)**

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 requires approval from the Board. Cash is primarily at floating rates of interest, subject to tax, legal, currency and liquidity constraints, with the primary purpose of preserving the capital value of cash and maintaining adequate liquidity levels.

Sensitivity analysis

Changes in market interest rates affect the interest income or expense of floating rate financial instruments. A change in the market interest rate of 50 basis points, with all other variables held constant, would have a zero impact on profit or loss and equity shown below, based on the net floating rate financial instrument balances at 31 December 2017. The analysis has been performed on the same basis for 2016.

	Impact on comprehensive income and shareholders' equity	
Rand million	**Increase**	**Decrease**
2017		
Floating interest rate instruments	**–**	**–**
2016		
Floating interest rate instruments	**(32)**	**32**

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 2017, R1,170 million (2016: R3,681 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	Level[1]	Level 2[2]	Level 3[3]
2017			
Investments held by the environmental trust[4]	**952**	**–**	**–**
Derivative financial instruments classified as cash and cash equivalent	**–**	**244**	**–**
	952	**244**	**–**
2016			
Investments held by the environmental trust[4]	855	–	–
Derivative financial instruments classified as cash and cash equivalent	–	587	–
	855	**587**	**–**

[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.
[4] Includes amounts transferred to assets of disposal group classified as held for sale.

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

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

Rand million	2017	2016
Long-term interest-bearing borrowings	**–**	4,500
Total debt	**–**	4,500
Cash and cash equivalents	**(13,874)**	(10,665)
Net cash	**(13,874)**	(6,165)
Total equity	**45,546**	**36,536**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December

35. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

2017 Emoluments

	Guaranteed pay			Additional benefits and payments		Short-term incentive	Long-term incentive		Fees		Total emoluments	
R'000	Base salary	Benefits (retirement)	Total guaranteed pay	Additional benefits (medical aid)	Ad hoc (leave encashment) and termination payments	Cash bonus based on 2017 performance (paid March 2018)	Face value of BSP shares awarded in respect of 2017 performance (awarded March 2018)	LTIP – value earned in respect of performance period 2015 – 2017 (vesting 2018)	Directors' fees	Committee fees	2017	2016
Executive directors												
NB Mbazima[21]	–	–	–	–	–	–	–	16,689			16,689	11,368
TM Mkhwanazi[22,23]	6,924	233	7,157	36	–	4,439	6,659	2,866			21,157	5,329
FT Kotzee[1]	1,218	83	1,301	15	26,697[24]	–	–	5,139			33,152	9,526
BA Mazarura[2,22]	1,158	75	1,233	12	–	408	571	–			2,224	–
Sub-total	**9,300**	**391**	**9,691**	**63**	**26,697**	**4,847**	**7,230**	**24,694**			**73,222**	**26,223**
Non-executive directors												
F Titi[9]									952	–	952	1,242
ZBM Bassa[20]									108	432	540	870
MS Bomela[10]									19	25	44	–
N Dlamini									219	74	293	52
S French[11]									167	74	241	–
MSV Gantsho[12]									–	551	551	–
TP Goodlace[13]									167	414	581	–
NB Langa-Royds[19]									–	–	–	–
DD Mokgatle									219	810	1,029	1,007
AJ Morgan									219	889	1,108	1,156
LM Nyhonyha[14]									–	–	–	870
SS Ntsaluba[15]									130	346	476	–
S Pearce[16]									167	74	241	–
BP Sonjica									219	291	510	487
AH Sangqu[17]									52	69	121	487
N Viljoen[18]									52	–	52	209
Sub-total									**2,690**	**4,049**	**6,739**	**6,380**
Prescribed officers												
B Mawasha[3]	2,184	216	2,400	16	2,492	785	–	–			5,693	8,811
GM Mc Gavigan[22]	2,695	247	2,942	36	80	1,293	1,810	–			6,161	3,756
Y Mfolo[22]	2,259	226	2,485	36	–	887	1,242	–			4,650	4,305
LLA Mgadzah[4]	613	38	651	6	3,272	101	–	–			4,030	3,226
PJP Fourie[5,22,23]	1,539	198	1,737	24	119	819	1,146	1,170			5,015	–
A Parboosing[6]	1,023	94	1,117	18	1,151	304	–	–			2,590	4,011
CD Appollis[7,22]	146	19	165	3	–	46	64	–			278	–
TS Smit[8, 22]	5,844	2,947	8,791	201	–	2,735	3,829	4,599			20,155	17,300
SV Tyobeka[22]	2,546	236	2,782	36	–	1,223	1,712	–			5,753	4,774
Sub-total	**18,849**	**4,221**	**23,070**	**376**	**7,114**	**8,193**	**9,803**	**5,769**			**54,325**	**46,183**
Total	**28,149**	**4,612**	**32,761**	**439**	**33,811**	**13,040**	**17,033**	**30,463**	**2,690**	**4,049**	**134,286**	**78,786**

Notes

[1] Resigned 11 May 2017.
[2] Appointed 1 September 2017.
[3] Resigned 30 June 2017.
[4] Resigned 28 February 2017. Cash bonus includes cash payment in lieu of 2017 BSP share award.
[5] Internal transfer from Anglo American Coal SA on 1 May 2017.
[6] Resigned 30 June 2017. Cash bonus includes cash payment in lieu of 2017 BSP share award.
[7] Appointed 1 December 2017.
[8] Employed by Kumba Singapore Pte and emoluments are paid in Singapore Dollars. Included in benefits are cost of living-related allowances. The LTIP value and BSP shares awarded is settled in Anglo American plc shares.
[9] Resigned 30 September 2017.
[10] Appointed 1 December 2017. No payment for 2017 as first payment due in February 2018.
[11] Appointed 24 March 2017.
[12] Appointed 1 August 2017.
[13] Appointed 24 March 2017.
[14] Resigned 31 December 2016.
[15] Appointed 1 June 2017.
[16] Appointed 24 March 2017.
[17] Resigned 24 March 2017.
[18] Resigned 24 March 2017.
[19] Appointed 1 December 2017. No payment for 2017 as first payment is due in February 2018.
[20] Resigned 11 May 2017.
[21] Estimated LTIP value – 1 March 2018 vesting is delayed due to employee being subject to a closed period.
[22] Award delayed due to employees being under embargo.
[23] LTIP value earned relates to an award made in Anglo American plc shares, while employed at Anglo American Coal SA.
[24] This amount includes a severance package. Refer to remuneration report in the Integrated Report for details.

35. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION continued

Interests of executive directors and the prescribed officers

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.

		Granted awards			Forfeited	Vested awards			Outstanding awards		
Capacity and name	Number of awards at 1 January 2017	Granted during 2017	Date of grant	Market value on grant date R'000	Number of shares forfeited during 2017	Number of shares vested during 2017	Vesting date	Notional value at date of vesting R'000	Number of awards at 31 December 2017	Notional value of outstanding awards R'000	Earliest date of vesting of outstanding awards
Executive directors											
Bonus share plan											
NB Mbazima[6]	178,509	–			–	11,674	1-Mar-17	2,492	166,835	63,252	1-Mar-18
TM Mkhwanazi	–	7,287	1-Mar-17	1,619	–	–		–	15,043	5,703	1-Mar-20
		7,756	1-Jun-17	1,136							
FT Kotzee[1]	62,670	–			62,670	–		–	–	–	
LTIP											
NB Mbazima[5,6,7]	399,912	–			31,523	–		–	368,389	117,687	1-Mar-18
TM Mkhwanazi	23,774	43,748	1-Jun-17	6,409	–	–		–	67,522	21,976	1-Mar-19
FT Kotzee[5,7]	121,578	–			9,841	–		–	111,737	35,683	1-Mar-18
BA Mazarura[2]	–	15,496	1-Sep-17	3,407	–	–		–	15,496	5,043	1-Mar-20
Sub-total	**786,443**	**74,287**		**12,571**	**104,034**	**11,674**		**2,492**	**745,022**	**249,345**	
Prescribed officers											
Bonus share plan											
PJP Fourie[4]	–	5,281	1-May-17	919	–	–			5,281	2,002	1-May-20
VF Malie	3,577	–			–	3,577	1-Mar-17	763	–		
B Mawasha[3]	113,683	22,002	1-Mar-17	4,888	–	5,437	1-Mar-17	1,160	–		
						130,248	25-Jul-17	22,390	–		
GM Mc Gavigan[6]	47,685	8,803	1-Mar-17	1,956	–	2,831	1-Mar-17	604	53,657	20,343	1-Mar-18
Y Mfolo[6]	52,605	9,618	1-Mar-17	2,137	–	3,426	1-Mar-17	731	58,797	22,292	1-Mar-18
LLA Mgadzah[3]	38,244	–		–	–	38,244	28-Feb-17	8,162	–	–	
A Parboosing[3]	21,944	–		–	–	21,944	23-Feb-17	4,835	–	–	
SV Tyobeka[6]	58,968	10,816	1-Mar-17	2,403	–	3,814	1-Mar-17	814	65,970	25,011	1-Mar-18
Sub-total	**336,706**	**56,520**		**12,302**	**–**	**209,521**		**39,461**	**183,705**	**69,648**	
Total	**1,123,149**	**130,807**		**24,873**	**104,034**	**221,195**		**41,952**	**928,727**	**318,992**	

[1] Refer separate table for full disclosure on separation agreement payments (page 99 of the Integrated Report).
[2] Share award allocated in terms of appointment agreement.
[3] All bonus shares vested in terms of separation agreement.
[4] Share award made based on individual performance and contribution to the business performance at Anglo American Coal SA.
[5] Shares forfeited are due to performance conditions of the 2014 award not having being met.
[6] 1 March 2018 vesting delayed due to employees being under embargo.
[7] Shares forfeited are due to performance conditions of the 2014 award not being met.

DIRECTORS' BENEFICIAL INTEREST IN KUMBA

The aggregate beneficial interest in Kumba at 31 December 2017 of the directors of the Company and their immediate families (none of whom has a holding greater than 1%) in the issued shares of the Company are detailed below. There have been no material changes to the shareholding since 2017 and the date of approval of the annual financial statements.

	2017			2016		
Capacity and name	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]	–	535,224	535,224	–	578,421	578,421
TM Mkhwanazi[1]	–	82,565	82,565	–	23,774	23,774
F Kotzee[1]	–	111,737	111,737	–	184,248	184,248
BA Mazarura	–	15,496	15,496	–	–	–
	–	745,022	745,022	–	786,443	786,443
Non-executive directors						
DD Mokgatle[2]	428	–	428	428	–	428
	428	–	428	428	–	428
	428	–	428	428	786,443	786,871

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

STATEMENT OF FINANCIAL POSITION

as at 31 December

Rand million	Notes	2017	2016
ASSETS			
Available-for-sale financial asset		–	8
Investments in subsidiaries	1	290	290
Deferred tax assets	2	–	1
Non-current assets		290	299
Cash and cash equivalents	3	207	191
Current assets		207	191
Total assets		497	490
EQUITY AND LIABILITIES			
Share capital and premium	4	367	367
Reserves		(48)	(47)
Total equity		319	320
Other payables		155	148
Current tax liabilities		23	22
Current liabilities		178	170
Total liabilities		178	168
Total equity and liabilities		497	490

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December

Rand million	Notes	2017	2016
Net operating expenses	5	**(71)**	(21)
Operating loss		**(71)**	**(21)**
Finance income		**49**	24
Income from investments	6	**5,144**	107
Profit before taxation		**5,122**	**110**
Taxation	7	**(14)**	(11)
Profit for the year		**5,108**	**99**
Total comprehensive income for the year		**5,108**	**99**

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 2017 and 2016.

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 2015	3	364	2,256	(178)	2,445
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**	**364**	**32**	**(79)**	**320**
Equity-settled share-based payments	**–**	**–**	**43**	**–**	**43**
Vesting of shares under employee share incentive schemes	**–**	**–**	**(8)**	**–**	**(8)**
Total comprehensive income for the year	**–**	**–**	**–**	**5,108**	**5,108**
Dividends paid	**–**	**–**	**–**	**(5,144)**	**(5,144)**
Balance at 31 December 2017	**3**	**364**	**67**	**(115)**	**319**

STATEMENT OF CASH FLOWS

for the year ended 31 December

Rand million	Notes	2017	2016
Cash flows from operating activities			
Cash generated from operations	8	**(13)**	(9)
Finance income		**49**	24
Income from investments	6	**5,144**	107
Taxation paid	9	**(12)**	(7)
Dividends paid		**(5,144)**	–
		24	**115**
Cash flows utilised in investing activities			
Loan granted to subsidiary		**–**	(285)
		–	**(285)**
Cash flows utilised in financing activities			
Vesting of shares under employee share incentive schemes		**(8)**	(9)
		(8)	**(9)**
Net increase in cash and cash equivalents		**16**	(179)
Cash and cash equivalents at beginning of year		**191**	370
Cash and cash equivalents at end of year	3	**207**	**191**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December

1. INVESTMENTS IN SUBSIDIARIES

Rand million	2017	2016
Reflected as non-current assets		
Shares at cost	**3**	3
Long-term loans to subsidiary	**287**	287
Net investments in subsidiaries	**290**	**290**

Investments in subsidiaries are accounted for at cost.

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

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

2. DEFERRED TAX ASSET

Rand million	2017	2016
Balance at beginning of year	**1**	1
Utilised in the current year	**(1)**	–
Balance at end of year	**–**	**1**
Deferred tax assets		
Deferred tax assets to be recovered after 12 months	**–**	1
Total deferred tax assets	**–**	**1**

3. CASH AND CASH EQUIVALENTS

Rand million	2017	2016
Cash	**207**	191
Currency analysis of cash and cash equivalents		
Rand	**207**	191

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	2017	2016
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	2017	2016
Reconciliation of share capital and premium		
Share capital	**3**	3
Share premium	**364**	364
	367	**367**

5. OPERATING (EXPENSES)/INCOME

Rand million	2017	2016
Cost by nature		
Salaries and wages	**(40)**	(22)
Equity-settled share-based payments	**(43)**	(15)
Pension, medical and termination costs	**(2)**	(1)
General charges	**(6)**	(8)
Cost recoveries	**20**	25
	(71)	**(21)**
The above costs are stated after including:		
Directors' remuneration[1]	**43**	32
Executive directors		
Emoluments received as directors of the Company	**36**	16
Bonuses and cash incentives	**–**	10
Non-executive directors – emoluments as directors of the company	**7**	6

[1] Refer to note 35 in the Kumba group financial statements.

6. INCOME FROM INVESTMENTS

Rand million	2017	2016
Dividends received from subsidiaries (refer to note 10)	**5 144**	**107**

7. TAXATION

Rand million	2017	2016
Charge to income		
SA normal tax		
Current year	**13**	11
Deferred tax	**1**	–
Total	**14**	**11**
Reconciliation of taxation rates	**%**	%
Taxation as a percentage of profit before taxation	**0.3**	10.1
Taxation effect of:		
Disallowable expenditure[1]	**(0.2)**	(5.4)
Exempt income[1]	**28.1**	27.1
Equity-settled share-based payment	**(0.2)**	(3.8)
Standard tax rate	**28.0**	**28.0**

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

8. CASH GENERATED BY OPERATIONS

Rand million	2017	2016
Operating loss	**(71)**	(21)
Adjusted for:		
Share-based payment expense	**43**	15
Working capital movements:		
Decrease/(increase) in financial assets	**8**	(3)
Decrease in other receivables	**–**	1
Increase/(decrease) in other payables	**7**	(1)
Cash flows utilised in operating activities	**(13)**	**(9)**

9. NORMAL TAXATION PAID

Rand million	2017	2016
Current tax liability at beginning of year	**22**	18
Amounts charged to the statement of profit and loss	**13**	11
Amount paid during the year	**(12)**	(7)
Current tax liability at end of year	**23**	**22**

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 (2016: 69.71%).

Subsidiaries

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

Shareholders

The principal shareholders of the Company are detailed under 'Shareholder analyses' on pages 99 and 100.

Material related-party transactions:

Rand million	2017	2016
Purchase of goods and services and finance charges		
Holding company[1]	*	*
Purchase of goods and services		
SIOC[2]	**23**	28
Sale of goods and services and finance income		
SIOC[3]	**58**	36
Interest on short-term deposit held with Anglo American SA Finance Limited (AASAF)	**–**	6
Amounts owing from/(to) related parties		
SIOC	**287**	287
Dividends paid to/(by) Kumba		
KIBV	**–**	107
SIOC	**5,144**	–
Holding company	**(3,586)**	–

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

11. EVENTS AFTER THE REPORTING PERIOD

Dividend

A final cash dividend of R15.00 per share was approved by the Board on 13 February 2018 from profits accrued during the financial year ended 31 December 2017. The total cash dividend for the year amounted to R30.97 per share. The estimated total cash flow of the final Kumba dividend, payable on 12 March 2018 is R4.8 billion.

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

ANNEXURE 1:

INVESTMENTS IN SUBSIDIARIES

for the year ended 31 December

Rand '000	Country of incorporation[1]	Principal place of business[1]	Nature of business[2]	Percentage holding	Nominal issued capital R	Investments at cost 2017	Investments at cost 2016	Loans to/(from) subsidiaries 2017	Loans to/(from) subsidiaries 2016
Direct investments									
Sishen Iron Ore Company Proprietary Limited	RSA	RSA	A	76%	100	**3,009**	3,009	**286,676**	286,529
KIO Investment Holdings Proprietary Limited	RSA	RSA	C	100%	1,000	**–**	–	**–**	–
Kumba International BV	NE	NE	B	100%	132,680	**276**	276	**–**	–
SIOC International	RSA	RSA	C	100%	–	**–**	–	**–**	–
Total investments in subsidiaries						**3,285**	3,285	**286,676**	286,529

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	C	100%
KIO Exploration Liberia SARL	LUX	LUX	C	100%
Kumba Singapore Pte Limited	SNG	SNG	B	100%
Sibelo Resources Development Proprietary Limited	RSA	RSA	C	100%

Special purpose entities[3]

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

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

ANNEXURE 2:

INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS

for the year ended 31 December

Rand '000	Country of incorporation[1]	Principal place of business[1]	Nature of business[2]	Number of shares held	Percentage holding	Investment at cost	Group loan balance 2017	Group loan balance 2016	Company loan balance 2017	Company loan balance 2016
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	**110,957**	110,909	–	–
Anglo American Kumba Exploration Liberia Limited	LIB	LIB	A	25,000	50%	26	–	–	–	–
						3,766	**110,957**	110,909	–	–

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

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

ANNEXURE 3:

EQUITY-SETTLED SHARE-BASED PAYMENT SCHEMES

for the year ended 31 December

EMPLOYEE SHARE INCENTIVE SCHEMES

Employees of the group participate in the following share incentive schemes:
– Bonus Share Plan
– Long-Term Incentive Plan (executive directors)

(1) BONUS SHARE PLAN (BSP)

Description of scheme

The BSP for executive directors and senior employees was implemented during 2009. The adoption and implementation of the scheme was approved by shareholders at the AGM on 20 March 2009. The BSP is offered to senior managers and key executives who have the opportunity and the responsibility to contribute towards the Kumba's overall strategic objectives. The BSP has two components:
– a payment of an annual cash bonus; and
– a forfeitable award of shares linked to the participant's annual cash bonus award known as bonus shares.

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

Movement in the number of share awards granted

	2017 award	2016 award	2015 award	2014 award	2013 award
Balance at beginning of year	**–**	1,982,599	369,366	212,803	33,283
Bonus shares awarded	**422,723**	–	–	–	–
Awards forfeited	**(6,052)**	(193,919)	(34,381)	(14,863)	(1,252)
Awards exercised[1]	**(34,854)**	(148,891)	(33,601)	(2,035)	–
Awards exercised on vesting	**–**	(597)	(6,646)	(195,905)	(32,031)
Balance at 31 December 2017	**381,817**	**1,639,192**	**294,738**	**–**	**–**
Balance at beginning of year		–	412,351	333,133	191,725
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)
Balance at 31 December 2016		**1,982,599**	**369,366**	**212,803**	**33,283**

[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	296,961	2018
1 to 2 years	1,957,274	2019
2 to 5 years	61,512	2020 – 2022

ANNEXURE 3:

EQUITY SETTLED SHARE-BASED PAYMENT SCHEMES CONTINUED

for the year ended 31 December

(1) BONUS SHARE PLAN (BSP) continued

Valuation of scheme

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

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

	2017 award	2016 award	2015 award	2014 award
Fair value assumptions				
Share price on date of grant (Rand)	**213.43**	84.39	227.26	420.00
Expected share option life (years)	**3**	3	3	3
Expected dividend yield (%)	**5.00**	–	–	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.

(2) LONG-TERM INCENTIVE PLAN (LTIP)

Description of scheme

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

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

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

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

The aggregate number of shares which may be allocated under the LTIP when added to the total number of unvested conditional awards, unexercised SARS 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			
	2017 award	2016 award	2015 award	2014 award
Balance at beginning of year	**–**	432,672	71,228	41,364
Conditional awards issued	**59,244**	–	–	–
Conditional awards forfeited	**–**	–	–	(41,364)
Balance at 31 December 2017	**59,244**	**432,672**	**71,228**	**–**
Balance at beginning of year		–	71 228	41 364
Conditional awards issued		432 672	–	–
Balance at 31 December 2016		**432 672**	**71 228**	**41 364**

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

	Number of conditional awards	Expiry date
Vesting period of conditional awards granted		
Less than 1 year	71,228	2018
1 to 2 years	432,672	2019
2 to 5 years	59,244	2020

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.

	2017 award	2016 award	2015 award	2014 award
Fair value assumptions				
Share price on date of grant (Rand)	**213.43**	84.39	227.26	420.00
Annualised expected volatility (%)	**50.00**	50.00	50.00	30.37
Expected share option life (years)	**3.00**	3.00	3.00	3.00
Expected dividend yield (%)	**5.00**	–	–	5.25
Risk-free interest rate (%)	**7.80**	7.48	7.48	7.40

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 2017 and have not been applied in preparing these consolidated financial statements, none had a material impact on the group.

IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*

IFRS 15 *Revenue from contracts with customers* 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, principle based five-step model to be applied to all contracts with customers.

The group's revenue is primarily derived from commodity sales for which the point of recognition is dependent on the contract sales terms, known as the International Commercial terms (Incoterms). As the transfer of risks and rewards generally coincides with the transfer of control at a point in time under the Incoterms, the timing and amount of revenue recognised by the group for the sale of commodities is not materially affected.

For the Incoterms, cost, insurance and freight (CIF) and cost and freight (CFR) the seller must contract for and pay the costs and freight necessary to bring the goods to the named port destination. Consequently, the freight service on export commodity contracts with CIF/CFR Incoterms represents a separate performance obligation as defined under the new standard, and a portion of the revenue earned under these contracts, representing the obligation to perform the freight service, is deferred and recognised over time as this obligation is fulfilled, along with the associated costs.

The impact of applying this change in the year ended 31 December 2017 would be to reduce freight revenue and operating costs with the portion of the freight revenue that has not been fulfilled at year end, there will be no change to opening retained earnings, the underlying EBITDA and earnings per share. The deferred shipping costs will be capitalised to current assets and the deferred income will be recognised as a current liability.

The group has completed an initial impact analysis which indicates that the adoption of IFRS 15 will have an insignificant impact on the group's revenue. However, expanded disclosure will be required.

IFRS 9 *FINANCIAL INSTRUMENTS* (NOVEMBER 2009, OCTOBER 2010 AND DECEMBER 2011, NOVEMBER 2013 AND JULY 2014)

IFRS 9 *Financial instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The standard includes requirements for recognition and measurement, impairment, de-recognition and hedge accounting. The standard is mandatorily effective for periods beginning on or after 1 January 2018 with early adoption permitted.

Classification and measurement of financial assets and liabilities

The group has completed the initial impact analysis which indicates that the classification and measurement of the portfolio of financial assets and liabilities held by the group would not fundamentally change on application of IFRS 9.

Impairment of financial assets

IFRS 9 requires entities to recognise estimated credit losses on financial assets based on a forward looking assessment. This is expected to result in earlier recognition of impairment losses on the group's financial assets. This is a fundamental change to IAS 39 which is based on an incurred loss model.

The group is currently assessing the financial impact of this change on the portfolio of financial assets. However, based on our preliminary assessment, while the model for measuring impairment will change, the group does not anticipate a significant change in the quantum of impairment losses requiring recognition.

Hedge accounting
The group has elected to adopt the IFRS 9 hedge accounting requirements from 1 January 2018. The adoption of the new standard will have no effect on the amounts recognised in relation to hedging arrangements for the year ended 31 December 2017.

Disclosure
IFRS 7 *Financial Instruments*: *Disclosure* is amended to include additional disclosures on the application of IFRS 9 and a gap analysis is currently in progress.

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 group's 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 in the statement of profit and loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
- 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 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.

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 the statement of financial position) and an operating lease (off statement of financial position). 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.

The application of IFRS 16 is expected to have a significant impact for the group's financial statements, particularly in relation to the recognition of right of use assets and lease liabilities that were previously treated as operating leases (refer to note 31). In contrast, the impact on the group's accounting for finance leases is not expected to be significantly impacted.

While a project to fully assess the impact of the IFRS 16 is under way, it is not practical to provide a reasonable and reliable estimate of the financial impact at this stage.

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.

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

SHAREHOLDER ANALYSIS

Register date: 29 December 2017
Issued share capital: 322,085,974

	Number of shareholdings	%	Number of shares	%
SHAREHOLDER SPREAD				
1 – 1,000 shares	13,532	88.86	2,619,172	0.81
1,001 – 10,000 shares	1,293	8.49	3,881,779	1.21
10,001 – 100,000 shares	316	2.07	9,061,065	2.81
100,001 – 1,000,000 shares	75	0.49	21,034,306	6.53
1,000,001 shares and over	13	0.09	285,489,652	88.64
Totals	**15,229**	**100.00**	**322,085,974**	**100.00**
DISTRIBUTION OF SHAREHOLDERS				
Strategic investor	1	0.01	224,535,915	69.71
Government	1	0.01	41,498,615	12.88
Banks/brokers	236	1.55	32,162,485	9.99
Close corporations	94	0.62	74,704	0.02
Endowment funds	27	0.18	160,625	0.05
Individuals	13,299	87.33	7,644,864	2.37
Insurance companies	34	0.22	1,890,018	0.59
Investment companies	7	0.05	149,827	0.05
Medical schemes	3	0.02	8,122	0.00
Mutual funds	162	1.06	6,363,275	1.98
Other corporations	60	0.39	54,810	0.02
Private companies	214	1.41	384,223	0.12
Public companies	9	0.06	298,221	0.09
Retirement funds	76	0.50	4,315,802	1.34
Share trusts	1	0.01	311,230	0.10
Sovereign wealth funds	7	0.05	965,943	0.30
Trusts	998	6.55	1,267,295	0.39
Totals	**15,229**	**100.00**	**322,085,974**	**100.00**
PUBLIC/NON-PUBLIC SHAREHOLDERS				
Non-public shareholders	**14**	**0.09**	**268,019,487**	**83.21**
Directors, associates and Exco of the Company	9	0.06	325,064	0.10
Strategic holdings	2	0.01	266,034,530	82.60
Related holdings	3	0.02	1,659,893	0.52
Public shareholders[1]	**15,215**	**99.91**	**54,066,487**	**16.79**
Totals	**15,229**	**100.00**	**322,085,974**	**100.00**

	Number of shares	%
BENEFICIAL SHAREHOLDERS HOLDING 2% OR MORE		
Anglo American	224,535,915	69.71
Industrial Development Corporation of South Africa Limited	41,498,615	12.88
Government Employees Pension Fund	3,280,230	1.02
Totals	**269,314,760**	**83.62**

[1] Included in this shareholding is 2,626,977 shares held by employees under the bonus scheme, which have been allocated, but not yet vested.

SHAREHOLDER ANALYSIS CONTINUED

Register date: 29 December 2017

Issued share capital: 322,085,974

BREAKDOWN OF NON-PUBLIC HOLDINGS

	Number of shares	%
DIRECTORS, ASSOCIATES AND EXECUTIVES OF THE COMPANY		
BA Mazarura (Chief financial officer)	**0**	**0.00**
BA Mazarura	0	0.00
T Mkhwanazi (Chief executive officer)	**15,043**	**0.00**
T Mkhwanazi	15,043	0.00
GM Mc Gavigan	**53,657**	**0.02**
GM Mc Gavigan	53,657	0.02
DD Mokgatle	**428**	**0.00**
LA Mokgatle	428	0.00
PJP Fourie	**5,281**	**0.00**
PJP Fourie	5,281	0.00
SV Tyobeka	**67,621**	**0.02**
SV Tyobeka	65,970	0.02
SV Tyobeka	1,651	0.00
Y Mfolo	**58,797**	**0.02**
Y Mfolo	58,797	0.02
Totals	**200,827**	**0.06**
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**	**82.60**
RELATED HOLDINGS		
Mercantile Shareholder Nominees – Exxaro	**1,259,678**	**0.39**
Mercantile Shareholder Nominees – Exxaro	1,259,678	0.39
Kumba Bonus Share Plan Trust	**311,230**	**0.10**
Kumba Bonus Share Plan Trust	311,230	0.10
Exxaro Resources Limited (No 8)	**88,985**	**0.03**
Exxaro Resources Limited (No 8)	88,985	0.03
Totals	**1,659,893**	**0.52**

BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 2% OR MORE

	Number of shares	%
BENEFICIAL SHAREHOLDERS		
Anglo American	**224,535,915**	**69.71**
Anglo South Africa 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	1.15
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**

ADMINISTRATION

COMPANY REGISTRATION NUMBER
2005/015852/06

JSE share code: KIO
ISIN code: ZAE000085346

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

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